

AGENDA ITEM EXECUTIVE SUMMARY: Proposed Revisions to the Academic, Operational and Financial Performance Frameworks

Issue

Consideration of revisions to the Board's current Academic, Financial and Operational Performance Framework and Guidance documents.

Proposed Revisions to the Performance Frameworks

The proposed changes are all technical in nature and provide clarity and transparency to enhance the readability of the guidance documents. *(See Appendix A: Academic Performance Framework and Guidance, Appendix B: Financial Performance Framework and Guidance, and Appendix C: Operational Performance Framework and Guidance)*

Public Comment

Arizona Administrative Code R7-5-404(A) allows the Board to revise the performance frameworks as needed. During the process of revision, the Board shall provide the public with notice and an opportunity to comment on proposed revisions. The proposed technical changes were open for public comment from September 11 through October 1, 2018. Board staff did not receive any comments within the stated timeframe of this first opportunity for public comment.

Requested Board Action

Board staff is asking the Board to adopt the current performance frameworks with the proposed technical revisions.

Appendix A: Academic Performance Framework and Guidance

Arizona State Board for Charter Schools

Academic Performance Framework and Guidance

As Revised on ~~October 10, 2017~~[DATE]

Historical Note:

Effective: October 9, 2012
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Support and funding for the development of the Arizona State Board for Charter Schools Performance Framework, which includes the Academic Framework, Operational Framework and Financial Framework, were provided by NACSA and through its Fund for Authorizing Quality.

Additional funding to support the implementation of the Performance Framework was provided by:

- Governor Brewer's Office of Education Innovation
- Arizona Community Foundation
- Stand for Children
- Rodel Charitable Foundation of Arizona
- Arizona Virtual Academy



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Academic Performance Framework Guidance

Charter schools may be established to provide a learning environment that will improve pupil achievement (A.R.S. § 15-181). As the authorizer or sponsor of charter schools, the State Board for Charter Schools ("Board") must adopt a performance framework that includes the academic performance expectations of the charter school and the measurement of sufficient progress toward the academic performance expectations (A.R.S. § 15-183(R)).

Charter holders have the autonomy to select and implement programs of instruction that align with their philosophical and methodological ideology and operational structure consistent with state and federal law and the charter contract. The purpose of the Academic Performance Framework ("academic framework") is to communicate the ~~State Board for Charter Schools'~~ ("Board's") academic performance expectations for ensuring that all charter holders in its portfolio are providing a learning environment where measurable improvement in pupil achievement can be demonstrated.

In developing the academic framework, the Board ~~remained conscious of its limited resources to implement the academic framework. The Board~~ was also mindful of its commitment to maintaining current levels of data collection so as not to unnecessarily burden ~~the~~ charter holders with requirements to submit additional information for the purpose of evaluating the academic performance of the charter holder. The successful implementation of the academic framework relies on having access to data collected through the administration and evaluation of state assessments.

~~The academic framework is organized by indicators, measures, metrics and targets.~~

The academic framework focuses purposefully on quantitative academic outcomes as a basis for analysis to be used in high-stakes decisions. If educational processes are required by law, such elements are included in the Operational Performance Framework and further guidance on the reasoning for this indicator can be found in the Operational Performance Framework and Guidance.

Minimum Academic Performance Expectations Framework Structure

The Academic Performance Framework is organized by indicators, measures, ~~metrics~~, and targets.

Indicators and Measures

The ~~Academic Academic Performance Framework framework~~ includes two indicators. ~~Schools are evaluated by one of the following indicators: or general categories, to evaluate a charter holder's academic performance.~~

1. State Accountability: State Accountability is the default indicator used to evaluate the academic performance of all charter schools sponsored by the Board. This indicator includes two measures:
 - ~~The~~ letter grade of each school operated by the charter holder as assigned through Arizona's A–F Letter Grade Accountability System, and
 - ~~In addition, this indicator considers~~ Considers state State designations for school improvement.
2. School-Specific Academic Goals: A charter holder that operates a school that serves a special population that does not have an achievement profile established by the State Board of Education for state accountability pursuant to A.R.S. § 15-241(~~H~~) may petition the Board to adopt unique, school-specific academic performance standards. Only charter schools that have been approved by the Board to use the substitute indicator of school-specific academic goals will be evaluated under this indicator.

Measures

~~For each of the indicators, the academic framework utilizes measures to evaluate schools. The combination of measures, taken on the whole, provides the Board with a balanced scorecard of each school's performance over time. Multiple measures are used in the standards: A-F State Accountability Letter Grades, State designations for school improvement, and school-specific academic goals for charter holders approved to use the separate indicator for academic performance.~~

Metrics

~~Metrics are the methods of evaluating a measure. In the development of the academic framework, the Board reviewed the available data to determine which metrics are appropriate for evaluating its charter schools.~~

Targets and Rating Categories

For each of the measures, targets are set to rate the schools against the academic framework. The targets establish the levels of performance needed to place each school into the rating categories. There are five possible rating categories but due to the nature of the individual measures, not every measure will include all five ratings.

Exceeds Standard: The school’s performance on this measure exceeds the performance targets and shows exemplary performance.

Above Standard: The school’s performance on this measure is above the performance targets required to meet the Board’s standard.

Meets Standard: The school’s performance on this measure meets the Board’s minimum performance targets.

Does Not Meet Standard: The school’s performance on this measure does not meet the Board’s minimum performance targets.

Falls Far Below Standard: The school’s performance on this measure signals a significant academic risk. Performance for any measure receiving this rating means the charter school is performing far below the Board’s performance targets and on par with the lowest-performing schools in the state. If a charter holder operates a charter school that falls far below the standard, ~~and~~ the charter holder may be brought before the Board for disciplinary action.

Indicators and Measures in Detail**Evaluation of Charter Holder Performance by Indicator**

~~Each of the indicators and measures is presented below. Included is an overview of each measure, methodological approaches, and factors considered in the development of specific targets. For each of the indicators, the academic framework provides a set of measures to evaluate a cCharter hHolder’s academic performance for the school(s) it operates. Targets for each measure are is provided below.~~

Indicator: State Accountability

A-F Letter Grade Accountability System

	1a. Is the school meeting acceptable standards according to the state accountability system?
	<i>Exceeds Standard:</i> <input type="checkbox"/> School received a letter grade of A from the state accountability system.
	<i>Above Standard:</i> <input type="checkbox"/> School received a letter grade of B from the state accountability system.
	<i>Meets Standard:</i> <input type="checkbox"/> School received a letter grade of C from the state accountability system.
	<i>Does Not Meet Standard:</i> <input type="checkbox"/> School received a letter grade of D from the state accountability system.
	<i>Falls Far Below Standard:</i> <input type="checkbox"/> School received a letter grade of F from the state accountability system.

~~Targets for A–F Letter Grade Accountability System~~

Targets for the A-F Letter Grade Accountability System ~~this measure~~ were set taking into consideration alignment with the state grading system and the Board’s mission to improve public education in Arizona. ~~Schools receiving an “A” grade are assessed in the academic framework as “exceeds standard,”~~

~~while schools receiving an “F” grade are considered “falls far below standard.”~~

Modifications for Alternative, ~~and~~ Extremely Small, ~~and~~ Arizona Online Instruction Schools

Subject to final adoption by the State Board of Education, the Department of Education is required to use appropriate achievement profiles to assess alternative schools and extremely small schools and may develop achievement profiles for Arizona Online Instruction schools and others pursuant to A.R.S. § 15-241(HI)¹

State Designations for School Improvement

	1b. Is the school meeting performance expectations as set forth by state and federal accountability requirements?
	<i>Meets Standard:</i> <input type="checkbox"/> Not identified for improvement.
	<i>Does Not Meet Standard:</i> <input type="checkbox"/> Identified for improvement and/or targeted support.
	<i>Falls Far Below Standard:</i> <input type="checkbox"/> Identified for improvement and/or comprehensive support.

Targets for State Designations

Targets for ~~this measure~~ state designations for school improvement were set taking into consideration Arizona’s plan for school performance under the provisions outlined in the Every Student Succeeds Act and A.R.S. § 15-241.02. The Department of Education must annually measure proficiency rates, subgroup performance, graduation rates, and other academic indicators to identify all Arizona public schools required to implement targeted, comprehensive, and other supports necessary to improve school performance.

Indicator: School-Specific Academic Goals

A charter holder that operates a school that serves a special population that does not have an achievement profile ~~established by the Department of Education and adopted by the State Board of Education for state accountability~~ pursuant to A.R.S. § 15-241(HI) may petition the Board to adopt unique, school-specific academic performance ~~standards~~ goals. If ~~the petition is~~ approved by the Board, ~~four~~ five to six school-specific academic goals, along with specific metric(s) and target(s), must be developed and agreed to by the charter holder and the Board. School-specific academic goals will be incorporated into the charter contract for the charter holder. (See Appendix A: ~~A for guidance on School-Specific Academic Goals~~).

	2. Is the school meeting its school-specific academic goals?
	<i>Exceeds Standard:</i> <input type="checkbox"/> School exceeded its school-specific academic goals.
	<i>Meets Standard:</i> <input type="checkbox"/> School met its school-specific academic goals.
	<i>Does Not Meet Standard:</i> <input type="checkbox"/> School did not meet its school-specific academic goals.
	<i>Falls Far Below Standard:</i> <input type="checkbox"/> School fell far below its school-specific academic goals.

¹A letter grade or its equivalent achievement profile will be used for schools that fall under this provision.

Overall Ratings

An Overall Rating is determined for each charter school operated by the charter holder in accordance with the following matrix.

		Overall Rating	
		1b. State Designation for School Improvement	
1a. A-F Letter Grade State Accountability	Not Identified for Improvement	Identified for Improvement and/or Targeted Support	Identified for Improvement and/or Comprehensive Support
A	Exceeds Standard	Does Not Meet Standard	Falls Far Below Standard
B	Above Standard	Does Not Meet Standard	Falls Far Below Standard
C	Meets Standard	Does Not Meet Standard	Falls Far Below Standard
D	Does Not Meet Standard	Does Not Meet Standard	Falls Far Below Standard
F	Falls Far Below Standard	Falls Far Below Standard	Falls Far Below Standard

For each charter school operated by a charter holder that has been approved by the Board to use ~~School-Specific Academic Goals~~ in place of the State Accountability indicator, the Overall Rating shall be determined as follows:

2. School-Specific Academic Goals	Overall Rating
School Exceeded its Goals	Exceeds Standard
School Met its Goals	Meets Standard
School Did Not Meet its Goals	Does Not Meet Standard
School Fell Far Below its Goals	Falls Far Below Standard

Dashboard

The Overall Rating is represented in the form of a color-coded graphic which will be referred to as the Dashboard. Examples for the charter holder and a charter school are included below.

Example Charter Holder Example

FY 20XX Charter Holder Name, Inc.

School	Type	Grades Served	Overall Rating
School 1	Traditional	K-8	Above Standard
School 2	Traditional	K-6	Falls Far Below Standard
School 3	Alternative	9-12	Does Not Meet Standard
School 4	Traditional	7-12	Exceeds Standard
School 5	Alternative	9-12	Meets Standard

	State Accountability		School-Specific	Overall Rating
	1a. A-F Letter Grade State Accountability	1b. State Designation for School Improvement	2. School-Specific Academic Goals	
School 1	Exceeds Standard	Meets Standard	-	Exceeds Standard
School 2	Above Standard	Meets Standard		Above Standard
School 3	Meets Standard	Does Not Meet Standard	-	Does Not Meet Standard
School 4	Does Not Meet Standard	Falls Far Below Standard	-	Falls Far Below Standard
School 5	-	-	Meets Standard	Meets Standard

Example Charter School Examples

School 1

FY 20XX Traditional Elementary K-8		
	Measure	Rating
1a. A-F Letter Grade	B	Above
1b. School Improvement	No	Meets
OVERALL RATING	Above Standard	

School 2

FY 20XX Traditional Elementary K-6		
	Measure	Rating
1a. A-F Letter Grade	D	Does Not Meet
1b. School Improvement	Comprehensive	Falls Far Below
OVERALL RATING	Falls Far Below Standard	

FY	State-Accountability		School-Specific	Overall-Rating
	1a. A-F Letter Grade State-Accountability	1b. State-Designation for School-Improvement	2. School-Specific Academic Goals	
2017	Does Not Meet Standard	Falls Far Below Standard	-	Falls Far Below Standard
2018	Meets Standard	Does Not Meet Standard	-	Does Not Meet Standard
2019	Above Standard	Meets Standard	-	Above Standard

Use of the Academic Framework

Evaluation

An evaluation is conducted annually to determine if the charter holder meets or is making sufficient progress toward the academic performance expectations set forth in the Board's academic ~~performance~~ framework. Overall Ratings for the most recent fiscal year that ~~State-state~~ achievement profiles are available are used to determine whether the charter holder meets the academic performance expectations set forth in the academic framework.

Meets the Board's Academic Performance Expectations

A charter holder meets the Board's academic performance expectations if all schools operated by the charter holder receive an Overall Rating of "Meets Standard," "Above Standard" or "Exceeds Standard" in the most recent fiscal year that ~~State-state~~ achievement profiles are available.

Demonstrating Sufficient Progress Toward the Board's Academic Performance Expectations

A charter holder that has one or more schools that receive an Overall Rating of "Does Not Meet Standard" or "Falls Far Below Standard" for three consecutive years has failed to demonstrate sufficient progress. In its determination of whether a charter holder demonstrates sufficient progress toward the Board's academic performance expectations, the Board will consider the Overall Rating for each of the schools it operates for the three most recent years that Overall Ratings are available and whether or not there has been improvement in the measures used to determine the Overall Rating.

The findings of the Demonstration of Sufficient Progress will be provided to the Board for consideration at the following times:

- If a charter school operated by the charter holder has failed to meet the Board's academic performance standard for three consecutive years
- During ~~five-five~~-year interval reviews
- When considering a charter contract renewal request submitted by the charter holder
- Upon receipt of information that a charter school operated by the charter holder has been assigned a letter grade of "F" under the state accountability system by the Department of Education
- When considering disciplinary action against a charter holder that has breached one or more provisions of its charter contract or is in violation of state or federal law

Reviews

A charter holder's academic performance will be considered by the Board during periodic reviews, including five-year interval reviews.

Five-Year Interval Reviews²

The most recent Overall Rating of each school operated by a charter holder will be used to determine whether the charter holder is meeting or making sufficient progress toward meeting the Board's academic performance expectations. Charter holders will be required to undergo an Academic Systems

Review, as defined in Appendix B, at five-year intervals.

Other Reviews

Because academic performance can affect a charter holder's ability to meet the obligations of its charter contract or provisions of law, a charter holder's academic performance may also be reviewed at other times, including when the Board makes decisions related to a charter holder's financial and/or operational performance. The Board may also use academic performance data for public reporting to various stakeholders, such as schools, policymakers, students and families, and the public.

Academic Eligibility for Expansion Requests

A charter holder's academic performance is evaluated by the Board when considering expansion requests. A charter holder is eligible to submit the expansion requests identified below if all of the following are true:

1. A dashboard for each school operated by the charter holder is available through ASBCS Online,
2. 75 percent or more of the schools operated by the charter holder have a minimum Overall Rating of "Meets Standard" in the most recent fiscal year presented on each school's academic dashboard,
3. 75 percent or more of all Associated Schools have a minimum Overall Rating of "Meets Standard" in the most recent fiscal year presented on the Associated Schools' dashboards, or
 - a. If one or more Associated Schools are excluded for academic performance purposes, then 100 percent of the remaining Associated Schools eligible to receive an Overall Rating must have a minimum Overall Rating of "Meets Standard" on the most recent fiscal year presented on the Associated Schools' academic dashboards, and
4. The charter holder meets the financial and operational eligibility requirements.

Expansion requests include:

- Adding a new ~~charter~~-school that is currently not in operation under an existing charter contract
- Increasing the number of students the charter holder may serve at its school(s)
- Adding or changing to an Arizona Online Instruction ("~~AOI~~") program of instruction
- Increasing the grade levels the charter holder is approved to serve
- Replicating an existing charter
- Transferring a charter school from an existing charter contract to its own charter contract
- Transferring a charter school or charter contract from the current charter holder to an existing charter holder with a different dashboard

If during the processing of one of the expansion requests identified above the Board develops new academic dashboards for the schools operated by the charter holder, Associated School(s), or both, then Board staff will reevaluate the charter holder's eligibility based on the most recent fiscal year academic dashboard.

² Five year interval reviews are counted using the first year in which the charter holder may operate a charter school under its charter contract

Associated Schools

An Associated School is:

- A school operated by a charter holder that operates one or more other schools that contract with the same Education Service Provider.
- A school operated by the same charter holder but under different charter contracts.
- A school operated by a charter holder with at least fifty (50) percent of corporate board officers, directors, members or partners in common, as reflected in the charter contract.

The Board will consider the academic performance of Associated Schools in its consideration of ~~replication applications and~~ new charter applications submitted by officers, directors, partners or members, or charter representatives of existing ~~Charter charter Holders holders~~ and may consider associated schools at other times.

Conclusion

A strong academic framework is critical for setting clear expectations for schools and for making high-stakes decisions more clear-cut and transparent. The creation and implementation of the academic framework required that the Board consider many factors, including which data elements are available, the quality of the data, and what information will support the Board in making high-stakes decisions.

Summarizing data into an Overall Rating that leads to certain predictable decisions and consequences supports the Board making objective, data-driven decisions. The academic framework provides an effective means to use ratings to “flag” a school for further evaluation, and then make a judgment about how to apply the consequences with relevant information being considered. This two-step process provides a transparent, data-driven method of placing schools in different categories of reward, review, or consequence.

APPENDIX A:
School-Specific Academic Goals

School-Specific Academic Goals

The Board recognizes that there are charter schools serving special populations that do not have an achievement profile pursuant to A.R.S. § 15-241(I) ~~preponderant populations of at risk students that are not included in the State's criteria to obtain Alternative School status~~ and has provided an opportunity for those schools to request use of school-specific academic goals in place of the State Accountability indicator.

Identifying Eligible Schools

~~The School~~

~~The School~~-Specific Academic Goals indicator is not intended to replace State Accountability measures for schools that are identified as Alternative, or for any schools that have an achievement profile ~~established by the Department of Education and adopted by the State Board of Education for state accountability~~ pursuant to A.R.S. § 15-241(H). Schools receiving an achievement profile pursuant to A.R.S. § 15-241(H) are not eligible to apply for School Specific Academic Goals.

Subject to adoption by the State Board of Education, the Department of Education is required to use appropriate achievement profiles to assess accommodation schools, alternative schools, and extremely small schools and may develop achievement profiles for Arizona Online Instruction schools and others.

~~Under the current criteria to obtain Alternative School Status, the school must be approved by the Arizona Department of Education to serve students in one or more of the following categories:~~

~~Students who have a documented history of disruptive behavior issues.~~

~~Students who have dropped out of school and are now returning.~~

~~Students in poor academic standing as demonstrated by being at least one year behind on grade level performance or academic credits.~~

~~Students who are primary caregivers or are financially responsible for dependents and, therefore, may require a flexible school schedule.~~

~~Students who are adjudicated.~~

~~Students who are wards of the state and are in need of an alternative school setting~~

~~Schools receiving an achievement profile pursuant to A.R.S. § 15-241(H) are not eligible to apply for School Specific Academic Goals.~~

Schools Eligible to Apply for School-Specific Academic Goals

A charter holder that operates a school that serves a special population (e.g. majority homeless or students with disabilities) that does not have an achievement profile ~~established by the Department of Education and adopted by the State Board of Education for state accountability~~ pursuant to A.R.S. § 15-241(H) may petition the Board to adopt unique performance standards. The Board shall consider a petition for use of the School-Specific Academic Goals if at least 70% of the students served by the school are identified as having at least one of the following risk factors:

- Identified as needing special education services

- Homeless

Schools that meet the criteria shall be approved by the Board to use school-specific academic goals. The charter holder shall provide verification that it meets the eligibility criteria at the time of initial application for use of school-specific academic goals and at subsequent five-year interval reviews.

Indicators and Measures

If approved by the Board, four to six school-specific academic goals along with specific metric(s) and target(s) must be developed and agreed to by the charter holder and the Board. School-specific academic goals will be incorporated into the charter contract for the charter holder. School-specific academic goals ~~s shall select one or more measures from~~ must address each of the indicators listed below and select one or more of the accompanying measures:

Student Growth – Academic improvement over time on valid and reliable assessments of Arizona academic standards.

Student Achievement – Academic proficiency on valid and reliable assessments of Arizona academic standards.

Post-secondary Readiness (high school only) – Outcomes in key subjects that indicate future success or that are aligned to college and career readiness such as graduation rates, SAT/ACT performance, workforce readiness, credit/course completion, or other metrics.

Student Engagement – Predictors of student achievement such as suspension rates, in-seat attendance rates, and positive socio-emotional or psychological adjustment rates.

Appendix B:
Academic Systems Review

Academic Systems Review

As part of the ~~Five~~ Five-Year Intervals Review ~~Process~~ process, the Board will conduct a comprehensive on-site ~~Academic Systems Review~~ visit to gain an understanding of how the school develops and implements the following:

- A curriculum ~~that~~ designed to improves student achievement.
- A system for monitoring the integration of the ~~State~~ Arizona academic standards.
- A system for monitoring and documenting student proficiency.
- A professional development plan that supports ~~effective~~ implementation of the curriculum.

Purpose: ~~This visit~~ The Academic Systems Review (“ASR”) is designed to gather evidence regarding the school’s implementation in providing a comprehensive program of instruction and designing a method to measure pupil progress toward pupil outcomes, as required in the charter contract. A set of criteria is used ~~by Board staff to review the school’s implementation of its academic systems. to determine the school’s implementation.~~

Length: 0.5 — 1 day (typically scheduled 8:30 am to 12:30 pm)

Team: Board staff

Product: A Five-Year Intervals Review Report will summarize the Board staff’s findings based on observations at the school ~~site~~, discussion with ~~the~~ school leadership team, and a review of documents. ~~In addition, each report will include a summary of the charter holder’s academic, financial and operational performance and any areas requiring further attention.~~ The findings will consist of a summary of the school’s implementation in specific areas and identification of any areas requiring attention.

Eligible Schools: All charter schools operated by a charter holder at the time of their five and ~~ten~~ year ~~ten-year~~ interval review ~~and prior to renewal~~.

Criteria: The ASR criteria determines the extent to which the school has:

1. An explicit, written curriculum for core content areas that is aligned with Arizona academic standards.
2. A systematic process for reviewing and evaluating the curriculum, at specific intervals, for alignment to Arizona academic standards and improving student academic outcomes for the population served.
3. A teacher evaluation system to monitor the integration of state standards into instruction.
4. An assessment plan to track, analyze, and monitor student academic performance.
5. A professional development plan that aligns with the program of instruction and best practices.

~~The school delivers a comprehensive program of instruction and has designed a method to measure pupil progress toward pupil outcomes that provides improved academic outcomes and educational success for all students.~~

Below are the main questions that will guide the Board staff's inquiry during the site visit

Does the school have an explicit, written curriculum for core content areas that is aligned with the state academic standards that drills down to the skill level?

Is there a systematic process in place for annually monitoring, evaluating, and reviewing the curriculum?

How is the integration of the state academic standards into the teachers' instructional practices assessed?

What does the school's teacher evaluation system comprise of? (Type, Frequency, Formative & Summative)

Is there a comprehensive assessment plan that utilizes data in a variety of ways to measure student performance and plan for teaching and learning?

How does the school staff track, analyze, and monitor its students' academic performance?

What evidence demonstrates that the professional development the teachers are engaged in is increasing student achievement?

How are the professional development activities aligned with the program of instruction (curriculum, methods of instruction, best practices)? What types of follow-up activities occur?

Appendix B: Financial Performance Framework and Guidance

Arizona State Board for Charter Schools

Financial Performance Framework and Guidance

As Revised on ~~October 10, 2017~~DATE

Historical Note:

Effective: August 13, 2012
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Financial Performance Framework Guidance

Charter holders have the autonomy to manage their finances consistent with state and federal law and the charter contract. The purpose of the Financial Performance Framework (“financial framework”) is to communicate the State Board for Charter Schools’ (“Board”) expectations for ensuring that all charter holders in its portfolio are viable organizations with strong fiscal management practices. To this end, the financial framework focuses on outcomes or performance goals not necessarily established in law.

The Board, in its oversight of charter holders and the schools that they operate, strives not to be over-reaching, but also recognizes the need to protect the public’s interests. Because charter schools are public schools they must maintain the public’s trust that they are implementing their education program as set out in the charter, spending public funds responsibly, and adhering to laws and charter requirements regarding their operations. However, the Board is aware of the delicate balance between appropriate oversight and infringement on autonomy.

In developing the financial framework, the Board remained conscious of its limited resources to implement the financial framework. The Board was also mindful of its commitment to maintaining current levels of data collection so as not to unnecessarily burden the charter holders with requirements to submit additional information for financial performance rating determinations.

FINANCIAL PERFORMANCE FRAMEWORK STRUCTURE

The financial framework, which has been included as Appendix A, gauges both near-term financial health and longer term financial sustainability. The portion of the financial framework that tests a charter holder’s near-term financial health is designed to depict the charter holder’s financial position and viability for the upcoming year. The portion of the financial framework that tests a charter holder’s longer term financial sustainability is designed to depict the charter holder’s financial position and viability over time. Charter holders meeting the desired standards demonstrate a low risk of financial distress. Charter holders not meeting the desired standards may currently be experiencing financial difficulties and/or may be at a higher risk for financial hardship in the future.

The financial framework includes five main levels of information: Indicators, Measures, Metrics, Targets, and Ratings. In addition to the information found below, the financial framework’s measures, metrics, targets, and ratings are further described in the “Measures in Detail” section of this guidance.

Indicators

Indicators are general categories of financial performance used to identify the financial information that best reflects the current financial status of a charter holder versus the information that better depicts the future financial viability of the charter holder. Near-Term Indicators and Sustainability Indicators are used in the financial framework.

Measures

Measures are the general means to evaluate an aspect of an indicator. Six measures are used in the financial framework: Going Concern, Unrestricted Days Liquidity, Default, Net Income, Cash Flow, and Fixed Charge Coverage Ratio.

Metrics

Metrics are a means for evaluating measures. As an example, the formula for evaluating Net Income is total revenues less total expenses.

Targets

Targets are the thresholds set to determine whether performance for a specific measure has been met or not. Using the Net Income measure again, the Board has set the target for the “Meets Standard” rating as Net Income is greater than or equal to \$1.

Ratings

For each measure a charter holder receives one of three ratings based on whether the charter holder met the target.

Meets Standard

The charter holder’s performance on this measure does not signal a financial risk to the charter holder and meets the Board’s expectation. Meeting the standard requires no follow up action by the charter holder.

Does Not Meet Standard

The charter holder’s performance on this measure signals a moderate financial risk to the charter holder and does not meet the Board’s expectation. This measure may require follow up depending on the interplay with other measures. Charter holders not meeting the standard in more than one measure are required to submit a financial performance response as addressed in the “Evaluation and Intervention” section of this document and Appendix B. Not meeting the standard may have an adverse impact on the consideration of the renewal application package and other requests made by the charter holder or at times when disciplinary action is considered. Charter holders may also be limited in their ability to expand their operations.

Falls Far Below Standard

The charter holder’s performance on this measure signals a potentially significant financial risk to the charter holder and is far below the Board’s expectation. Charter holders are required to submit a financial performance response as addressed in the “Evaluation and Intervention” section of this document and Appendix B. Falling far below the standard may have an adverse impact on the consideration of the renewal application package and other requests made by the charter holder or at times when disciplinary action is considered. Charter holders may be limited in their ability to expand their operations.

USING USE OF THE FINANCIAL PERFORMANCE FRAMEWORK

Collecting Evidence

The annual statutorily required audits conducted by independent certified public accountants provide the information necessary to determine a charter holder’s financial performance. In accordance with the parameters established in the [Board’s Strategic Plan](#), the financial framework uses information already collected by the Board to assess charter holders’ financial performance and does not require charter holders to provide additional information for rating determinations.

The following information from the annual audit reporting packages will be used:

- Independent Auditor’s Report on the financial statements
- Audited statement of financial position
- Audited statement of activities and changes in net assets
- Audited statement of cash flows
- Notes to the audited financial statements
- Applicable compliance questionnaire

Since a large percentage of the Board’s charter contracts are with non-profit entities, throughout this document the financial statements will be referred to using non-profit terminology. Statements reported in for-profit or governmental audits use the following corresponding names:

Non-profit	For-profit	Governmental
Statement of Financial Position	Balance Sheet	Statement of Net Assets
Statement of Activities and Changes in Net Assets ¹	Income Statement	Statement of Activities
Statement of Cash Flows	Statement of Cash Flows	Statement of Cash Flows (Note: This statement is required only under certain circumstances.)

Through ASBCS Online, the Board has provided online public access to the audit reporting packages of Board-sponsored charter holders. Information about how to access the annual audit reporting packages through ASBCS Online is available on the [Board’s website](#).

Evaluation and Intervention

The established targets are used to determine whether the charter holder is meeting each measure based on the available existing data. The evaluation is completed annually using the charter holder’s most recent audit reporting package and a determination is made as to whether the charter holder met the Board’s financial performance standard for the audited fiscal year and whether the charter holder met the Board’s financial performance expectations. A charter holder that does not meet the Board’s financial performance expectations may be required to submit a financial performance response.

Meets the Board’s Financial Performance Standard

To meet the financial performance standard, the charter holder must receive no “Falls Far Below Standard” ratings and no more than one “Does Not Meet Standard” rating using the most recent

¹ This statement may also be referred to as the “statement of activities”.

annual audit. A charter holder that receives two or more “Does Not Meet Standard”, one or more “Falls Far Below Standard”, or both based on the charter holder’s most recent audit reporting package does not meet the Board’s financial performance standard.²

Meets the Board’s Financial Performance Expectations

As shown in the table below, a charter holder’s financial performance for the most recent audited fiscal year and the prior audited fiscal year are used to determine whether the charter holder meets the Board’s financial performance expectations.

Previous Audit	Most Recent Audit	Meets Board’s Financial Performance Expectations?
MEETS financial performance standard	MEETS financial performance standard	Yes
DOES NOT MEET financial performance standard	MEETS financial performance standard	Yes
MEETS financial performance standard	DOES NOT MEET financial performance standard; no measure receives “Falls Far Below Standard”	Yes
MEETS financial performance standard	DOES NOT MEET financial performance standard; 1 or more measures receive “Falls Far Below Standard”	No
DOES NOT MEET financial performance standard	DOES NOT MEET financial performance standard	No

Financial Performance Dashboard

A charter holder’s financial performance is represented in a dashboard format, which summarizes the charter holder’s performance on each measure. The financial performance dashboard (“dashboard”) reflects financial performance for the two most recent audited years, identifies whether the performance meets the Board’s expectations, and becomes publicly available through ASBCS Online after the audit is reviewed and the financial data entered by

² In those instances where the Board receives financial statements that cover multiple and different charter holder entities, the charter holder’s performance will be evaluated under the financial framework using the charter holder specific financial information and the financial information for the consolidated/combined entity. Failure of the individual charter holder or the consolidated/combined entity to meet the Board’s financial performance expectations will result in the charter holder being required to submit a financial performance response.

Board staff.³ Information about how to access and interpret the dashboards is available on the [Board's website](#).

Financial Eligibility for Expansion Requests

A charter holder is eligible to submit or, as applicable, to be the receiving party in the expansion requests identified below if all of the following are true:

1. A dashboard for the charter holder is available through ASBCS Online⁴.
2. The charter holder has no measure rated "Falls Far Below Standard" for the most recent fiscal year presented on the charter holder's dashboard.
3. 75 percent or more of all Associated Charters (defined below) have no measure rated "Falls Far Below Standard" for the most recent fiscal year presented on the Associated Charters' dashboards. If one or more Associated Charters are excluded for financial performance purposes, then 100 percent of the remaining Associated Charters must have no measure rated "Falls Far Below Standard" for the most recent fiscal year presented on the Associated Charters' dashboards.
4. The charter holder meets the academic and operational eligibility requirements.

Expansion requests include:

- Adding a new ~~charter~~ school that is currently not in operation under an existing charter contract
- Increasing the number of students the charter holder may serve at its school(s)
- Adding or changing to an Arizona Online Instruction (AOI) program of instruction
- Increasing the grade levels the charter holder is approved to serve
- Replicating an existing charter
- Transferring a charter school from an existing charter contract to its own charter contract⁵
- Transferring a charter school or charter contract from the current charter holder to an existing charter holder with a different dashboard⁶

For eligibility determination purposes, an Associated Charter is:

- A charter operated by a charter holder that contracts with the same education service provider.
- A charter operated by the same charter holder.
- A charter operated by a charter holder with at least 50 percent of the officers, directors, members or partners in common, as reflected in the charter contract.

An Associated Charter may be excluded if the Associated Charter is in its first year of operation and has not yet submitted its first audit reporting package to the Board.

³ In those instances where the Board receives financial statements that cover multiple and different charter holder entities, the charter holder's dashboard will include both the charter holder's financial performance and the financial performance of the consolidated/combined entity. (See also footnote 2.)

⁴ The Board must have received the charter holder's first audit reporting package for the charter holder to be eligible to submit an expansion request. If the audit reporting package has been submitted but a dashboard is not available through ASBCS Online, please contact your Education Program Manager.

⁵ The eligibility requirements apply whether the charter school is being transferred to its own charter contract that will be held by a charter holder with the same name or with a different name as the existing charter holder.

⁶ For these requests, only the financial performance of the receiving charter holder is considered when determining eligibility.

If during the processing of one of the expansion requests identified above the Board receives the next audit reporting package for the charter holder, Associated Charter(s) or both, then Board staff will update the applicable dashboard(s) and reevaluate the charter holder's eligibility based on the most recent audit reporting package(s). For a charter holder determined to no longer be financially eligible, Board staff will notify the charter holder and close the request.

Review of Charter Holders' Financial Performance

A charter holder's financial performance will be considered by the Board at the following times:⁷

- When considering a charter contract renewal request submitted by the charter holder
- During five-year interval review~~s~~
- Upon receipt of information that a charter school operated by the charter holder has been assigned a letter grade of "F" under the state accountability system
- If a charter school operated by a charter holder has failed to meet the Board's academic performance standard for three consecutive years
- Addition of a new school that is currently not in operation under an existing charter contract⁸
- Increase in the number of students the charter holder may serve at its school(s)⁸
- Addition of or change to an AOI program of instruction⁸
- Increase in the grade levels the charter holder is approved to serve⁸
- Replication of an existing charter⁸
- Transfer of a charter school from an existing charter contract to its own charter contract held by a charter holder with a different name than the existing charter holder⁸
- Transfer of a charter school or charter contract from the current charter holder to an existing charter holder with a different dashboard⁸
- Transfer of the charter contract from another sponsor to the Board
- ~~When~~ When the Board makes decisions related to a charter holder's academic performance, a charter holder's compliance with its charter and state and federal laws, ~~or~~
- ~~when~~ When a new charter application package is submitted by an officer, director, partner, member or charter representative of the charter holder⁹

Financial Performance Response

A charter holder's financial performance will be used by the Board during the term of the charter:

- To stipulate the conditions which waive the charter holder from any submission requirements related to its financial operations.
- To stipulate the conditions which require the charter holder to submit additional information or clarification that will be used to inform the Board's decision-making.

A charter holder that meets the Board's financial performance expectations will be waived from submitting a financial performance response at the times identified in the "Review of Charter

⁷ At the time of consideration by the Board, the most current audited financial information will be provided.

⁸ The Board has established financial eligibility criteria for this request (see "Financial Eligibility for Expansion Requests" section).

⁹ In these situations, a charter holder will be able to address its financial performance at the Board meeting, but an opportunity will not be built in to the process for the charter holder to provide a written response in advance of the meeting.

Holders' Financial Performance" section and in Appendix B. A charter holder that does not meet the Board's financial performance expectations at the times identified in the "Review of Charter Holders' Financial Performance" section and in Appendix B will be required to submit a financial performance response if, as applicable, the charter holder meets the eligibility requirements identified in the "Financial Eligibility for Expansion Requests" section. For more information regarding the financial performance response, please see Appendix C.

For requests involving the transfer of a charter school or charter contract from a current charter holder to a charter holder with a different dashboard, both the current charter holder and the eligible receiving charter holder must meet the Board's financial performance expectations to be waived from submitting a financial performance response. If the receiving charter holder meets the eligibility requirements, but one or both charter holders do not meet the Board's financial performance expectations, then the charter holder(s) that does not meet the Board's financial performance expectations will be required to submit a financial performance response.

If only one year of financial performance is available, a charter holder seeking to submit an expansion request must meet the Board's financial performance standard in order to be waived from submitting a financial performance response.

MEASURES IN DETAIL

This section describes each of the measures included in the financial framework. A charter holder's financial performance is evaluated annually using the charter holder's most recent audit reporting package. It is important to note that the financial framework excludes measures of how a charter holder manages and expends its funds as the financial framework is not designed to evaluate a charter holder's spending decisions. For example, there are no measures that address what portion of the costs are for direct instruction; rather the measures focus on the overall expenses versus the offsetting revenues. The financial framework analyzes the financial performance of a charter holder, not its processes for managing that performance.

1a. Going Concern – Near-Term Indicator

Definition: *Going concern is the idea that the charter holder will continue to engage in its activities for the foreseeable future.*

Overview: Auditing standards require an auditor to evaluate an organization's ability to continue operating for the next year. If the auditor has substantial doubt about whether the organization will operate for at least the next year, then the independent auditor's report would include a paragraph explaining this concern and information, including management's plans, would be disclosed in the notes to the audited financial statements. The auditor's consideration of management's plans may alleviate the "substantial doubt" about the organization's ability to continue operating. In those instances, the auditor may disclose in the notes to the audited financial statements the conditions and events that initially caused the auditor to believe there was substantial doubt, but wouldn't include a paragraph in the independent auditor's report.

Source of Data: Independent Auditor's Report on the financial statements and the notes to the audited financial statements.

1a. Going Concern

Meets Standard:

The most recent audit reporting package does not include explanatory paragraph in Independent Auditor's Report or disclosure in the notes to the financial statements

Does Not Meet Standard:

No "Does Not Meet Standard" target established for this measure

Falls Far Below Standard (in one of two ways):

Independent Auditor's Report for the most recent audit reporting package includes an explanatory paragraph and disclosure is included in notes to the financial statements

or

Disclosure included in notes to the financial statements for the most recent audit reporting package, but no modification to Independent Auditor's Report

Basis for Target Level: If the audit reporting package includes a going concern disclosure in the independent auditor's report or the notes to the audited financial statements, then the independent auditor has concerns about the charter holder's viability. A charter holder in this situation may have difficulty meeting operational and academic obligations required under law and its charter contract.

1b. Unrestricted Days Liquidity – Near-Term Indicator

Definition: *The unrestricted days liquidity measure indicates how many days a charter holder can pay its expenses without an influx of cash.*

Overview: Unexpected costs arise when operating a charter school. Additionally, circumstances outside of the charter holder's control may impact the amount and timing of funding received from the State and other sources. Therefore, maintaining a reserve is a common best practice. The unrestricted days liquidity measure translates into a more readily understandable number a charter holder's unrestricted cash balance and available balances from other sources of liquidity disclosed in the annual audit reporting package, including lines of credit. Please note that the Board will not round numbers when determining a charter holder's financial performance on this measure.

A.R.S. §15-977 limits how Classroom Site Fund (CSF) monies may be spent. Therefore, if a charter holder does not spend all of the CSF monies it received during the fiscal year, then at the end of the year, the charter holder needs to have enough cash in the bank to cover the unspent portion from current and prior years ("carryover"). Since the CSF carryover monies may only be used for the purposes specified in statute, any year-end CSF cash carryover balance will be removed when determining the charter holder's unrestricted cash.

Source of Data: Audited statement of financial position, audited statement of activities and changes in net assets, notes to the audited financial statements, and compliance questionnaire¹⁰.

¹⁰ For fiscal years prior to and including 2011, the year-end Classroom Site Fund cash carryover was not required to be disclosed in the audit reporting package. Beginning with fiscal year 2012, the year-end CSF cash carryover must, at a minimum, be disclosed in the Classroom Site Fund section of the applicable compliance questionnaire.

1b. Unrestricted Days Liquidity: (Unrestricted Cash + Other Sources of Liquidity*) divided by (Total Expenses/365)

* "Other Sources of Liquidity" is defined as available balances from any sources of liquidity other than cash that are disclosed in the annual audit reporting package and may include, but not be limited to, lines of credit.

[Note: The Classroom Site Fund cash carryover balance at June 30th would be considered restricted cash and, therefore, would be removed as part of identifying a charter holder's unrestricted cash as of June 30th.]

Meets Standard:

30 or more days liquidity

Does Not Meet Standard:

At least 15 days liquidity but fewer than 30 days liquidity

Falls Far Below Standard:

Fewer than 15 days liquidity

Basis for Target Level: Having access to cash or other sources of liquidity equaling at least 30 days of operating expenses is a standard minimum for any organization. In the event of unforeseen circumstances (e.g., unexpected costs, changes to State funding), 30 days of cash or other liquidity would help the charter holder make payroll, pay the rent, and keep the charter school's doors open until the charter holder receives its next State equalization payment or until other funding is secured. If a charter holder has fewer than 15 days of cash or other liquidity, should unforeseen circumstances arise, the charter holder may have difficulty making its next payroll and meeting other obligations before receiving its next influx of cash.

1c. Default – Near-Term Indicator

Definition: Default indicates that a lender has issued a formal notice of loan default to the charter holder.

Overview: In addition to making timely payments, financial institutions may include other terms and requirements (sometimes referred to as "covenants") in their agreements with charter holders. Individuals who make loans to charter holders may establish agreements with similar requirements. Failure to make timely payments or comply with debt covenants does not automatically result in a formal notice of default being issued by the lender and therefore would not be considered a "material" default. However, in those cases where formal notice of default has been issued by the lender, this measure will be rated "Falls Far Below Standard".

Source of Data: Notes to the audited financial statements.

1c. Default: Defined as in True Default on Obligations

Meets Standard:

Charter holder is not in default on material loans

Does Not Meet Standard:

No "Does Not Meet Standard" target established for this measure

Falls Far Below Standard:

Charter holder is in default on material loans

Basis for Target Level: A charter holder that has received formal notice of default from a lender may be at higher risk of financial distress and may have difficulty meeting its operational and academic obligations required under law and the charter contract.

2a. Net Income – Sustainability Indicator

Definition: Net income, which equals total revenues less total expenses, looks at whether or not a charter holder is operating within its available resources.

Overview: The net income measure identifies whether a charter holder operates at a surplus (total revenues exceed total expenses) or a deficit (total expenses exceed total revenues). It should be noted that a charter holder may make a strategic choice to operate at a deficit for a year. Continued deficits for a sustained period of time could adversely affect the charter holder's ability to meet its obligations.

Source of Data: Audited statement of activities and changes in net assets.

2a. Net Income: Total Revenues less Total Expenses

Meets Standard:

Net income is greater than or equal to \$1

Does Not Meet Standard:

Net income is zero or negative

Falls Far Below Standard:

No "Falls Far Below Standard" target established for this measure

Basis for Target Level: Positive net income contributes to the charter holder's reserve. Having a reserve gives the charter holder more flexibility in responding as situations arise that are outside of the charter holder's control. The targets established for this measure focus on whether the charter holder operated during the fiscal year with a surplus or deficit rather than the magnitude of the surplus or deficit.

2b. Cash Flow – Sustainability Indicator

Definition: The cash flow measure shows the change in a charter holder's cash balance from one fiscal year to another.

Overview: This measure is similar to the unrestricted days liquidity measure, but looks at longer term financial stability versus near-term financial health. Since cash flow fluctuations from year-to-year can have a long-term impact on the charter holder’s financial health, this measure assesses three-year cumulative cash flow. For information regarding the underlying factors that have contributed to the annual cash flow fluctuations experienced by the charter holder, please review the audited statement of cash flows. If the Board has received only one or two audit reporting packages at the time of review, the charter holder’s financial performance under this measure will be evaluated using the information available.

For each fiscal year, the cash flow equals the current year’s total cash minus the prior year’s total cash. Adding the cash flow for each of the three fiscal years together will provide the three-year aggregate cash flow. The “Cash Flow Calculation Example” textbox found on this page shows how to calculate the cash flow measure using fiscal year 2012 as the most recent audited fiscal year available.

Cash Flow Calculation Example
<p>Calculate the annual cash flow: FY2012 Cash Flow = FY2012 Total Cash – FY2011 Total Cash FY2011 Cash Flow = FY2011 Total Cash – FY2010 Total Cash FY2010 Cash Flow = FY2010 Total Cash – FY2009 Total Cash</p> <p>Add together the FY2012 Cash Flow, FY2011 Cash Flow, and FY2010 Cash Flow to determine the three-year cumulative cash flow.</p>

Source of Data: Audited statement of financial position.

2b. Cash Flow: One-Year Cash Flow = Current Year Total Cash less Prior Year Total Cash
<p>Meets Standard:</p> <p><input type="checkbox"/> Three-year cumulative cash flow is positive</p>
<p>Does Not Meet Standard:</p> <p><input type="checkbox"/> Three-year cumulative cash flow is negative</p>
<p>Falls Far Below Standard:</p> <p>No “Falls Far Below Standard” target established for this measure</p>

Basis for Target Level: Cash flow should be greater than zero as a positive cash flow over time generally indicates increasing financial health and sustainability of the charter holder.

2c. Fixed Charge Coverage Ratio – Sustainability Indicator

Definition: The fixed charge coverage ratio looks at the amount of cushion in the charter holder’s cash flow to cover fixed obligations or charges.

Overview: Fixed charges represent the charter holder’s fixed financial commitments. These charges occur regardless of changes in revenue or other circumstances that may affect the charter holder’s financial situation, which is why the term “fixed” is used. For this ratio, fixed charges would include lease payments, loan payments, and interest.

The ratio includes interest and lease expense in both the numerator and denominator even though it appears that in the end they would cancel each other out. This has been done for two reasons. First, because the ratio components are more encompassing, it helps in determining the true cushion in cash flow to cover fixed obligations. Second, if the ratio’s numerator

included only change in net assets, depreciation and amortization and the denominator was unchanged, the ratio would solve for a charter holder's ability to meet lease and interest expense payments after it has already paid lease and interest expense, because lease and interest expense have already been deducted to arrive at the change in net assets.

The individual ratio components are described in more detail below:

- *Change in Net Assets* – The change in net assets results from revenues, expenses and the release of assets from restrictions. For for-profit charter holders, the ratio would use net income after tax instead of change in net assets.
- *Depreciation* – Depreciation is the allocation of a fixed asset's costs over the useful life of the asset and involves the movement of costs from the statement of financial position to the statement of activities and changes in net assets. Fixed assets include items such as buildings, furnishings and vehicles. Depreciation is known as a noncash expense. Although charter holders are required to record this expense in their accounting records, depreciation does not use cash. Therefore, depreciation is added back into the ratio's numerator.
- *Amortization* – Amortization is similar to depreciation but it involves the allocation of an intangible asset's costs over a period of time. Intangible assets include items such as bond issuance costs. Although charter holders are required to record this expense, as applicable, in their accounting records, amortization does not use cash. Therefore, amortization is added back into the ratio's numerator.
- *Interest Expense* – Interest expense reflects the charter holder's cost of borrowing for the fiscal year. As a result of the accounting method charter holders are required to use, interest expense may not equal the amount of interest paid to lenders. Interest paid reflects the cash paid to lenders for interest and may be higher or lower than the interest expense for the fiscal year. In calculating the ratio, the dollar amount used for "interest expense" would also be used for "interest".
- *Lease Expense* – Lease expense includes facility leases and operating leases where at the end of the lease ownership of the item does not transfer to the charter holder.
- *Current Portion of Long-Term Debt and Capital Leases (CPLTDCL)* – The CPLTDCL includes the portion of debt that must be paid by the charter holder within the next fiscal year. The "current portion of long-term debt" would include bond/loan payments for charter holders that own their facilities, as well as payments related to other long-term loans obtained by the charter holder and capital leases.

Please note that the Board will not round numbers when determining a charter holder's financial performance on this measure.

Source of Data:

- Changes in Net Assets – Audited statement of activities and changes in net assets.
- Depreciation and Amortization – Audited statement of cash flows and/or notes to the audited financial statements.
- Interest Expense – Notes to the audited financial statements. Interest expense may also be available on the audited statement of activities and changes in net assets, if the statement includes sufficient detail, or the statement of functional expense, if available. If interest expense cannot be determined, interest paid may be used and is found on the statement of cash flows.

- Lease Expense – Notes to the audited financial statements.
- Current Portion of Long-Term Debt and Capital Leases – Audited statement of financial position.

<p>2c. Fixed Charge Coverage Ratio: $(\text{Change in Net Assets}^* + \text{Depreciation} + \text{Amortization} + \text{Interest Expense} + \text{Lease Expense}) / (\text{Current Portion of Long-Term Debt and Capital Leases} + \text{Interest} + \text{Lease Expense})$</p> <p><i>* Net Income After Tax would be used when calculating the ratio for for-profit charter holders.</i></p>
<p>Meets Standard:</p> <p><input type="checkbox"/> Fixed Charge Coverage Ratio is equal to or exceeds 1.10</p>
<p>Does Not Meet Standard:</p> <p><input type="checkbox"/> Fixed Charge Coverage Ratio is less than 1.10</p>
<p>Falls Far Below Standard:</p> <p>No "Falls Far Below Standard" target established for this measure</p>

Basis for Target Level: Financially healthy entities have a cushion in cash flow coverage. The 1.1 used in the "meets" target is typical for non-profit organizations. Since capitalized expenses, such as buses and equipment, are not included in the statement of activities and changes in net assets, they need to be covered by the cushion in cash flow or through outside financing. Another benefit of excess cash flow is that a charter holder can build up cash and equity to purchase larger assets, such as a building. Since banks will only finance up to a certain amount of the building, the difference needs to be funded by the charter holder. The only way to build up cash/equity is through retention of the earnings cushion or from an injection of equity from an outside source. Charter holders that operate where fixed charges are only covered at 1:1 will not have the same flexibility as those that generate cash flow in excess of that level.

Appendix A

Financial Performance Framework

Board Strategic Plan Objective: All charter holders in the portfolio are viable organizations with strong fiscal management practices.

1. NEAR-TERM INDICATORS

1a. Going Concern

Meets Standard:

The most recent audit reporting package does not include explanatory paragraph in Independent Auditor’s Report or disclosure in the notes to the financial statements

Does Not Meet Standard:

No “Does Not Meet Standard” target established for this measure

Falls Far Below Standard (in one of two ways):

Independent Auditor’s Report for the most recent audit reporting package includes an explanatory paragraph and disclosure is included in notes to the financial statements

or

Disclosure included in notes to the financial statements for the most recent audit reporting package, but no modification to Independent Auditor’s Report

1b. Unrestricted Days Liquidity: $(\text{Unrestricted Cash} + \text{Other Sources of Liquidity}^*) \div (\text{Total Expenses}/365)$

* “Other Sources of Liquidity” is defined as available balances from any sources of liquidity other than cash that are disclosed in the annual audit reporting package and may include, but not be limited to, lines of credit.

[Note: The Classroom Site Fund cash carryover balance at June 30th would be considered restricted cash and, therefore, would be removed as part of identifying a charter holder’s unrestricted cash as of June 30th.]

Meets Standard:

30 or more days liquidity

Does Not Meet Standard:

At least 15 days liquidity but fewer than 30 days liquidity

Falls Far Below Standard:

Fewer than 15 days liquidity

1c. Default: Defined as in True Default on Obligations

Meets Standard:

Charter holder is not in default on material loans

Does Not Meet Standard:

No “Does Not Meet Standard” target established for this measure

Falls Far Below Standard:

Charter holder is in default on material loans

2. SUSTAINABILITY INDICATORS

2a. Net Income: Total Revenues less Total Expenses

Meets Standard:

Net income is greater than or equal to \$1

Does Not Meet Standard:

Net income is zero or negative

Falls Far Below Standard:

No "Falls Far Below Standard" target established for this measure

2b. Cash Flow: One-Year Cash Flow = Current Year Total Cash less Prior Year Total Cash

Meets Standard:

Three-year cumulative cash flow is positive

Does Not Meet Standard:

Three-year cumulative cash flow is negative

Falls Far Below Standard:

No "Falls Far Below Standard" target established for this measure

2c. Fixed Charge Coverage Ratio: $(\text{Change in Net Assets}^* + \text{Depreciation} + \text{Amortization} + \text{Interest Expense} + \text{Lease Expense}) / (\text{Current Portion of Long-Term Debt and Capital Leases} + \text{Interest} + \text{Lease Expense})$

* Net Income After Tax would be used when calculating the ratio for for-profit charter holders.

Meets Standard:

Fixed Charge Coverage Ratio is equal to or exceeds 1.10

Does Not Meet Standard:

Fixed Charge Coverage Ratio is less than 1.10

Falls Far Below Standard:

No "Falls Far Below Standard" target established for this measure

Appendix B

Financial Expectations Not Met: Charter Holder Action & Board Consideration

For charter holders that do not meet the Board’s financial performance expectations but do meet the expansion eligibility requirements, as applicable, the table below specifies by monitoring, expansion or transfer area what the charter holder must do and how that information will be used by the Board in its decision-making. This table in no way precludes the Board from considering a charter holder’s financial performance or from assigning a financial performance response at other times when the Board makes decisions, for example, related to a charter holder’s academic performance or a charter holder’s compliance with its charter and state and federal laws.

In accordance with A.A.C. R7-5-509, if the process the charter holder is in requires consideration at a Board meeting and at least one measure was rated as “Not Acceptable” in Board staff’s evaluation conducted under Appendix C, Board staff shall provide the charter holder with the opportunity to supplement the financial performance response based on the feedback included in the evaluation.

	Charter Holder Action	Board Consideration
Academic Performance Framework (Monitoring)	<p>If a charter school operated by the charter holder has failed to meet the Board’s academic performance standard for three consecutive years <u>and</u> the charter holder does not meet the Board’s financial performance expectations, the charter holder must submit a financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard” or a “Falls Far Below Standard”. For additional information regarding the financial performance response, please see Appendix C.</p>	<p>Board staff will review the financial performance response and evaluate it in accordance with Appendix C. The charter holder’s financial performance response (supplemented, as applicable) and the final evaluation instrument completed by staff will be provided to the Board when the Board considers the charter holder’s academic performance. Additionally, a table showing the charter holder’s financial data and financial performance for the last three audited fiscal years (if three years are available) will be included in the staff report provided to the Board, as well as an analysis prepared by staff of the charter holder’s financial performance, focusing on those measures where the charter holder failed to meet the Board’s target and using information from the charter holder’s response and related documents.</p> <p>The charter holder’s financial performance may be considered by the Board as an aggravating factor in its decision-making.</p>
Arizona Online Instruction (AOI) – Addition of or change to an AOI program of instruction (Expansion)	<p>If the charter holder meets the eligibility requirements specified on pages 6 and 7, the charter holder must submit:</p> <ul style="list-style-type: none"> • A financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard”. For additional information regarding the financial performance response, please see Appendix C. • A start-up budget detailing all expenditures that cover the start-up plans. 	<p>Board staff will review the financial performance response and evaluate it in accordance with Appendix C. Additionally, Board staff will review the start-up and operational budgets and assumptions. The charter holder’s financial performance response (supplemented, as applicable), start-up budget, operational budget and assumptions, as well as the final evaluation instrument completed by staff will be provided to the Board when the Board considers the charter holder’s request. Additionally, a table showing the charter holder’s financial data and financial performance for the last three audited fiscal</p>

	Charter Holder Action	Board Consideration
	<ul style="list-style-type: none"> • A first-year operational budget detailing all expenditures that cover the first year of operation. • For each budget, budget assumptions for each line item in the budget, including a description of how revenues cover expenses. If the revenues do not cover expenses, describe how this will not negatively affect the charter holder’s overall financial performance. 	<p>years (if three years are available) will be included in the staff report provided to the Board, as well as an analysis prepared by staff of the charter holder’s financial performance, focusing on those measures where the charter holder failed to meet the Board’s target and using information from the charter holder’s response and related documents.</p> <p>The charter holder’s financial performance may be considered by the Board as an aggravating factor in its decision-making.</p>
Enrollment Cap – Increase in the number of students the charter holder may serve at its school(s) (Expansion)	<p>If the charter holder meets the eligibility requirements specified on pages 6 and 7, the charter holder must submit a financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard”. For additional information regarding the financial performance response, please see Appendix C.</p>	<p>Board staff will review the financial performance response and evaluate it in accordance with Appendix C. The charter holder’s financial performance response (supplemented, as applicable) and the final evaluation instrument completed by staff will be provided to the Board when the Board considers the charter holder’s request. Additionally, a table showing the charter holder’s financial data and financial performance for the last three audited fiscal years (if three years are available) will be included in the staff report provided to the Board, as well as an analysis prepared by staff of the charter holder’s financial performance, focusing on those measures where the charter holder failed to meet the Board’s target and using information from the charter holder’s response and related documents.</p> <p>The charter holder’s financial performance may be considered by the Board as an aggravating factor in its decision-making.</p>
“F” Letter Grade – A charter school operated by the charter holder has been assigned a letter grade of “F” under the state accountability system (Monitoring)	<p>If a charter school operated by the charter holder has been assigned a letter grade of “F” under the state accountability system <u>and</u> the charter holder does not meet the Board’s financial performance expectations, the charter holder must submit a financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard” or a “Falls Far Below Standard”. For additional information regarding the financial performance response, please see Appendix C.</p>	<p>Board staff will review the financial performance response and evaluate it in accordance with Appendix C. The charter holder’s financial performance response (supplemented, as applicable) and the final evaluation instrument completed by staff will be provided to the Board when the Board considers whether to revoke or restore the charter of the failing school. Additionally, a table showing the charter holder’s financial data and financial performance for the last three audited fiscal years (if three years are available) will be included in the staff report provided to the Board, as well as an analysis prepared by staff of the charter holder’s financial performance, focusing on those measures where the charter holder failed to meet the Board’s target and using information</p>

	Charter Holder Action	Board Consideration
		<p>from the charter holder’s response and related documents.</p> <p>The charter holder’s financial performance may be considered by the Board as an aggravating factor in its decision-making.</p>
Five-Year Interval Review (Monitoring)	<p>The charter holder must submit a financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard” or a “Falls Far Below Standard”. For additional information regarding the financial performance response, please see Appendix C.</p>	<p>Board staff will review the charter holder’s financial performance response and evaluate it in accordance with Appendix C. A copy of the completed evaluation instrument will be placed in the charter holder’s DMS in ASBCS Online.</p> <p style="text-align: center;">OR</p> <p>The Board may consider the charter holder’s financial performance at the time of the interval review. In these instances, Board staff will review the financial performance response and evaluate it in accordance with Appendix C. The charter holder’s financial performance response (supplemented, as applicable) and the final evaluation instrument completed by staff will be provided to the Board when the Board considers the charter holder’s performance at the time of the interval review. Additionally, a table showing the charter holder’s financial data and financial performance for the last three audited fiscal years will be included in the staff report provided to the Board, as well as an analysis prepared by staff of the charter holder’s financial performance, focusing on those measures where the charter holder failed to meet the Board’s target and using information from the charter holder’s response and related documents. The charter holder’s financial performance may be considered by the Board as an aggravating factor in its decision-making.</p>
Grade Levels – Increase in the grade levels the charter holder is approved to serve (Expansion)	<p>If the charter holder meets the eligibility requirements specified on pages 6 and 7, the charter holder must submit a financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard”. For additional information regarding the financial performance response, please see Appendix C.</p>	<p>Board staff will review the financial performance response and evaluate it in accordance with Appendix C. The charter holder’s financial performance response (supplemented, as applicable) and the final evaluation instrument completed by staff will be provided to the Board when the Board considers the charter holder’s request. Additionally, a table showing the charter holder’s financial data and financial performance for the last three audited fiscal years (if three years are available) will be included in the staff report provided to the Board, as well as an analysis prepared by staff of the charter holder’s financial performance, focusing on those measures where the charter holder failed to meet the Board’s target and</p>

	Charter Holder Action	Board Consideration
		<p>using information from the charter holder’s response and related documents.</p> <p>The charter holder’s financial performance may be considered by the Board as an aggravating factor in its decision-making.</p>
New School – Addition of a new school that is currently not in operation under an existing charter contract¹ (Expansion)	<p>If the charter holder meets the eligibility requirements specified on pages 6 and 7, the charter holder must submit:</p> <ul style="list-style-type: none"> • A financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard”. For additional information regarding the financial performance response, please see Appendix C. • A start-up budget detailing all expenditures that cover the start-up plans. • A first-year operational budget detailing all expenditures that cover the first year of operation. • For each budget, budget assumptions for each line item in the budget, including a description of how revenues cover expenses. If the revenues do not cover expenses, describe how this will not negatively affect the charter holder’s overall financial performance. 	<p>Board staff will review the financial performance response and evaluate it in accordance with Appendix C. Additionally, Board staff will review the start-up and operational budgets and assumptions. The charter holder’s financial performance response (supplemented, as applicable), start-up budget, operational budget and assumptions, as well as the final evaluation instrument completed by staff will be provided to the Board when the Board considers the charter holder’s request. Additionally, a table showing the charter holder’s financial data and financial performance for the last three audited fiscal years (if three years are available) will be included in the staff report provided to the Board, as well as an analysis prepared by staff of the charter holder’s financial performance, focusing on those measures where the charter holder failed to meet the Board’s target and using information from the charter holder’s response and related documents.</p> <p>The charter holder’s financial performance may be considered by the Board as an aggravating factor in its decision-making.</p>
Renewal (Monitoring)	<p>The charter holder must submit a financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard” or a “Falls Far Below Standard”. For additional information regarding the financial performance response, please see Appendix C.</p>	<p>Board staff will review the financial performance response and evaluate it in accordance with Appendix C. The charter holder’s financial performance response (supplemented, as applicable) and the final evaluation instrument completed by staff will be provided to the Board when the Board considers the charter holder’s renewal application package. Additionally, a table showing the charter holder’s financial data and financial performance for the last three audited fiscal years will be included in the staff report provided to the Board, as well as an analysis prepared by staff of the charter holder’s financial performance, focusing on those measures where the charter holder failed to meet the Board’s target and using information from the charter holder’s response and related documents.</p>

¹ See also “Transfer of a charter school or charter contract from the current charter holder to an existing charter holder with a different dashboard.

	Charter Holder Action	Board Consideration
		If the charter holder is not meeting the Board’s academic performance expectations and/or is not complying with statutory and contractual requirements, the charter holder’s financial performance may be considered as an aggravating factor by the Board in its decision about whether or not to renew the charter contract.
Replication (Expansion)	<p>If the charter holder meets the eligibility requirements specified on pages 6 and 7, the charter holder must submit:</p> <ul style="list-style-type: none"> • A financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard”. For additional information regarding the financial performance response, please see Appendix C. • A start-up budget to cover expenses projected to occur during the start-up period (until August 1 of the year the school opens). • A three-year operational budget to cover expenses projected to occur during the first three years of operation. • For each budget, a separate document describing assumptions for each line item, to include disaggregated costs, and basis for determining those costs. Demonstrate through the assumptions that the amounts listed are viable and adequate for the start-up period and first three years of operation. <p>The templates for the replication start-up budget and three-year operational budget are available on the Board’s website.</p>	<p>Board staff will review the financial performance response and evaluate it in accordance with Appendix C. Additionally, Board staff will review the start-up and operational budgets and assumptions. The charter holder’s financial performance response (supplemented as applicable), start-up budget, operational budget and assumptions, as well as the final evaluation instrument completed by staff will be provided to the Board when the Board considers the replication application package. Additionally, a table showing the charter holder’s financial data and financial performance for the last three audited fiscal years (if three years are available) will be included in the staff report provided to the Board, as well as an analysis prepared by staff of the charter holder’s financial performance, focusing on those measures where the charter holder failed to meet the Board’s target and using information from the charter holder’s response and related documents.</p> <p>The charter holder’s financial performance may be considered by the Board as an aggravating factor in its decision-making.</p>
Transfer of a charter school or charter contract from the current charter holder to an existing charter holder with a different dashboard (Expansion)	<p>If the receiving charter holder meets the eligibility requirements specified on pages 6 and 7, but the current charter holder, receiving charter holder or both do not meet the Board’s financial performance expectations, please see below.</p> <p><u>Receiving Charter Holder Does Not Meet</u> The receiving charter holder must submit a financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard”. For additional</p>	<p>Board staff will review the financial performance responses and evaluate them in accordance with Appendix C. The charter holders’ financial performance responses (supplemented, as applicable) and the final evaluation instruments completed by staff will be provided to the Board when the Board considers the charter holders’ request. Additionally, tables showing the charter holders’ financial data and financial performance for the last three audited fiscal years (if three years are available) will be included in the staff report provided to the Board, as well as an analysis prepared by staff</p>

	Charter Holder Action	Board Consideration
	<p>information regarding the financial performance response, please see Appendix C.</p> <p><u>Current Charter Holder Does Not Meet</u> The current charter holder must submit a financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard” or a “Falls Far Below Standard”. For additional information regarding the financial performance response, please see Appendix C.</p>	<p>of the charter holders’ financial performance, focusing on those measures where the charter holders failed to meet the Board’s target and using information from the charter holders’ responses and related documents.</p> <p>The charter holders’ financial performance may be considered by the Board as an aggravating factor in its decision-making.</p>
Transfer of a charter school from an existing charter contract to its own charter contract held by a charter holder with a different name than the existing charter holder (Expansion)	<p>If the charter holder meets the eligibility requirements specified on pages 6 and 7, the charter holder must submit a financial performance response that addresses each measure for the most recent audited fiscal year presented in the dashboard where the charter holder received a “Does Not Meet Standard”. For additional information regarding the financial performance response, please see Appendix C.</p>	<p>Board staff will review the financial performance response and evaluate it in accordance with Appendix C. The charter holder’s financial performance response (supplemented, as applicable) and the final evaluation instrument completed by staff will be provided to the Board when the Board considers the charter holder’s request. Additionally, a table showing the charter holder’s financial data and financial performance for the last three audited fiscal years (if three years are available) will be included in the staff report provided to the Board, as well as an analysis prepared by staff of the charter holder’s financial performance, focusing on those measures where the charter holder failed to meet the Board’s target and using information from the charter holder’s response and related documents.</p> <p>The charter holder’s financial performance may be considered by the Board as an aggravating factor in its decision-making.</p>
Transfer of the Charter Contract from Another Sponsor to the Board (Transfer)	<p><i>Charter holders that want to transfer their charter contracts to the Board should contact the Board at (602) 364-3080 for the requirements.</i></p>	<p>If the charter holder is not meeting the Board’s academic performance expectations and/or is not complying with statutory and contractual requirements, the charter holder’s financial performance may be considered as an aggravating factor by the Board in its decision about whether or not to transfer the charter contract.</p>

Appendix C

Financial Performance Response & Evaluation

Financial Performance Response

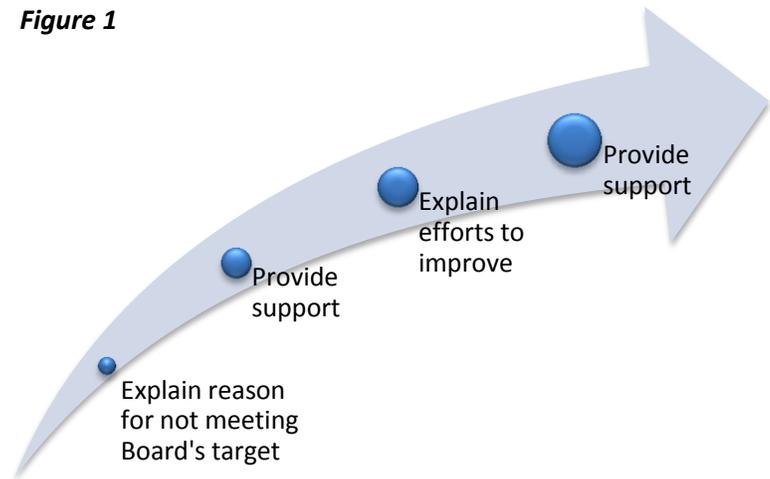
A charter holder that does not meet the Board’s financial performance expectations will be required to submit a financial performance response (“Response”) at specified times (see Appendix B). The Response provides the charter holder with the opportunity to explain its financial performance and efforts to improve.

What Must Be Covered

Through the Response, the charter holder must answer three questions for each measure where the charter holder received a “Does Not Meet Standard” or “Falls Far Below Standard” for the **most recent audited fiscal year presented in the dashboard:**

1. Why did we not meet the measure’s target in the audited fiscal year?
2. What specifically have we done to improve our performance so that it’s possible to meet the measure’s target in the next fiscal year or a subsequent fiscal year?
3. What can we provide to support our explanations and analysis?

Figure 1



Where to Begin

As counterintuitive as it may seem, the first step in preparing the Response shouldn’t be to pore over the financial records, but rather to step back and identify what changed or happened with the charter holder from the prior year to the most recent audited fiscal year presented in the dashboard. The accounting records and the resulting financial statements are not the cause of the financial performance. Instead, they show the effect of decisions made by or for the charter holder during the fiscal year. Once you know what happened, then you can go to the financial statements and records to see how what happened affected the charter holder’s financial performance in the most recent audited fiscal year presented in the dashboard and to identify improvement in the next or subsequent fiscal year.

Show and Tell

Adopt a “show us, don’t just tell us” approach to your Response. While Figure 1 illustrates the Response’s necessary components, it should not be interpreted as requiring the Response to include equal parts explanation (“tell us”) and support (“show us”). Generally, the easiest and best way to explain why the measure’s target was not met and the efforts to improve is to show us through accounting system or management reports, interim financial statements, projections, forecasts, or supplemental worksheets.¹ The narrative is then used to briefly provide the context and to point us to the relevant portions of the supporting documentation. Please see the [Board’s website](#) for additional guidance and technical assistance on preparing a Response.

Financial Performance Response Evaluation

Board staff evaluates each submitted Response. For a Response to be evaluated as “Acceptable”, the Response must include the four components identified in Figure 1 for each applicable measure.

¹ Board staff has access to the annual audit reporting packages, publicly available Arizona Department of Education (ADE) attendance and state funding reports, and the charter holders’ budgets submitted to ADE. Therefore, these documents may be referenced in, but do not need to be provided with, the Response.

Appendix D

Definition of Terms

AUDIT – A systematic collection of the sufficient, competent evidential matter needed to attest to the fairness of management's assertions in the financial statements or to evaluate whether management has efficiently and effectively carried out its responsibilities. The auditor obtains this evidential matter through inspection, observation, inquiries, and confirmations with third parties.

AUDIT REPORTING PACKAGE – The annual audit required by A.R.S. §15-914 includes several components, including the financial statements, a report on internal control and compliance required under auditing standards, the applicable compliance questionnaire(s), and the management letter, if one is issued by the audit firm. For a charter holder that expends more than \$500,000 in federal awards (e.g., federal grants), the audit reporting package submitted would include additional information and documents.

COMPLIANCE QUESTIONNAIRE – As part of the annual audit required by A.R.S. §15-914, the auditor must complete the appropriate compliance questionnaire(s). The compliance questionnaires assist the Board in determining whether a charter holder is complying with certain legal and contractual requirements. The Board currently issues three compliance questionnaires – the Legal Compliance Questionnaire, the USFRCS Compliance Questionnaire¹, and the Procurement Compliance Questionnaire. For most charter holders, the Legal Compliance Questionnaire is the only compliance questionnaire that must be completed.

FINANCIAL AUDIT – An audit made by an independent external auditor for the purpose of issuing an audit opinion on the fair presentation of the financial statements in conformity with GAAP. Refer to AUDIT.

FISCAL YEAR – The twelve-month period that begins on July 1st and ends on June 30th.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) – These are the uniform minimum standards for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. The primary authoritative body on the application of GAAP for most charter holders is the Financial Accounting Standards Board.

NOTES TO THE AUDITED FINANCIAL STATEMENTS – Sometimes referred to as disclosure notes, the notes follow immediately after the financial statements. In addition to summarizing certain accounting policies used by the charter holder, the financial statements may include information regarding leases the charter holder has entered into, loans the charter holder has received (sometimes referred to as “notes”) and its compliance with loan terms, and restrictions on the charter holder’s cash.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS – This financial statement shows what made up the charter holder’s revenue and expenses for the fiscal year. Generally, revenue is shown by type and expenses are shown by program type (i.e., program services, management and general). This statement also shows whether a charter holder operated at a surplus (total revenues exceed total expenses) or a deficit (total expenses exceed total revenues), as well as the change in net assets. This statement is also referred to as the income statement (for-profit) or the statement of activities (governmental).

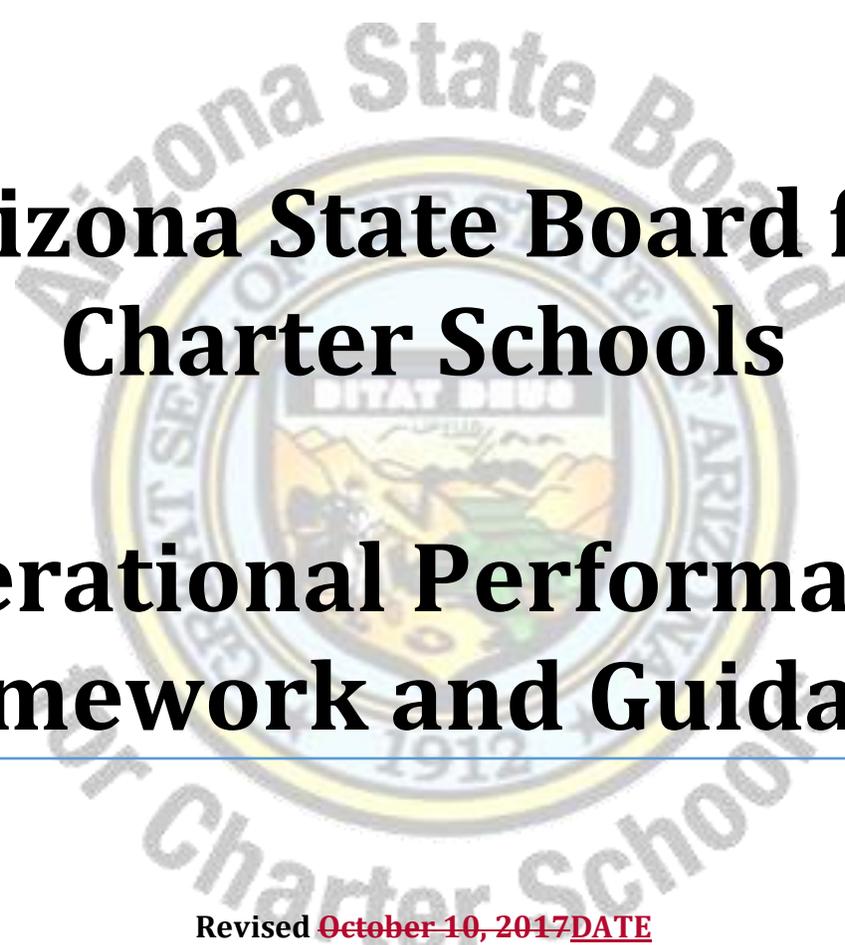
STATEMENT OF CASH FLOWS – This financial statement shows where the charter holder’s cash came from and how the cash was used during the fiscal year. It categorizes cash activity as resulting from operating, investing, and capital and related financing activities.

¹ USFRCS stands for Uniform System of Financial Records for Charter Schools.

STATEMENT OF FINANCIAL POSITION – This financial statement shows the charter holder’s assets, liabilities, and net assets as of June 30th. Assets are what the charter holder owns, liabilities are what the charter holder owes, and net assets are the difference between the two. Net assets represent any surpluses (total assets exceed total liabilities) or deficits (total liabilities exceed total assets) that have accumulated since the charter holder was formed. This statement is also referred to as the balance sheet (for-profit) or the statement of net assets (governmental).

STATEMENT OF FUNCTIONAL EXPENSE – This financial statement shows a detailed breakdown of expenses by expense type and by program and supporting services. While not required for charter holder audits, some audit reporting packages received by the Board include this additional statement.

Appendix C: Operational Performance Framework and Guidance

The logo is a circular seal for the Arizona State Board for Charter Schools. It features a central figure of a Native American holding a bow and arrow, with a banner above that reads "DITAT BRUG". The seal is surrounded by the text "ARIZONA STATE BOARD FOR CHARTER SCHOOLS" and the year "1912".

Arizona State Board for Charter Schools

Operational Performance Framework and Guidance

Revised ~~October 10, 2017~~DATE

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Support and funding for the development of the State Board for Charter Schools Performance Framework, which includes the Academic Framework, Operational Framework and Financial Framework, were provided by NACSA and through its Fund for Authorizing Quality.



Additional funding to support the implementation of the Performance Framework was provided by:

- Governor Brewer’s Office of Education Innovation
- Arizona Community Foundation
- Stand for Children
- Rodel Charitable Foundation of Arizona
- Arizona Virtual Academy

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Operational Performance Framework Guidance

The purpose of the Operational Performance Framework (“Operational Framework”) is to communicate ~~the State Board for Charter Schools (“Board”) compliance-related expectations to the charter schools holders and the public~~ ~~the State Board for Charter Schools’ (“Board”) compliance-related expectations.~~ The Operational Framework includes, but is not limited to, expectations the charter school is required to meet through state and federal law, the charter contract, and administrative rule.

The Board, in its oversight of charter holders and the schools that they operate, strives not to be over-reaching, but also recognizes the need to protect the public’s interests. ~~Because charter schools are public entities,~~ they must maintain the public’s trust that they are implementing their education program as set out in the charter, spending public funds responsibly, ~~and adhering to laws and charter requirements regarding the implementation of the education program and their operational reporting and compliance requirements.~~ The measures incorporated herein are not intended to create a duplicative reporting burden on the charter holder, but rather provide an evaluation of the charter holder’s operational compliance based on a collection of information gathered from a variety of sources. The Board is aware of the delicate balance between appropriate oversight and infringement on autonomy and developed the Operational Framework with that balance in mind.

FRAMEWORK STRUCTURE

The framework is divided into broad categories or indicators. Within the indicators are individual measures that help to determine a charter holder’s performance on each of the indicators. The metrics are the general means by which to evaluate the measure, and the ratings are the thresholds set to determine whether a charter holder is meeting the standard or not. The Board has evaluated federal and state laws, the charter contract, and its own policies in establishing the measures and metrics included in the Operational Framework. The indicators, measures, metrics, and ratings, as they pertain to the Operational Framework, are explained in more detail below.

Indicators

The framework includes three indicators, ~~or categories,~~ used to evaluate the charter holder’s operational performance and compliance.

Implementation of the Education Program. This indicator includes measures of the charter holder’s fidelity to the education program, ~~as defined by the charter contract and law.~~ Charter holders must, by means of a charter application (or charter amendment), propose to the Board the education program they plan to implement. The Board approves a charter application package based on the expectation that the charter holder will implement its education program as proposed. This section evaluates the charter holder’s adherence to the proposed education program, as it is set out in the charter contract. Additionally, certain aspects of an education program are required by law (e.g. administration of assessments, education of students with disabilities, etc.) and this section also addresses the education requirements established by law that the charter holder must adhere to. The Board has adopted a separate Academic Performance Framework that includes the Board’s academic performance

expectations of the charter school and the measurement of sufficient progress toward the academic performance expectations.

Financial and Operational Reporting and Compliance. This indicator includes measures of the charter holder's ability to adhere to financial and operational reporting and compliance requirements. - This section evaluates the charter holder's implementation of sound business operations, ability to properly enroll and report student attendance, provision of a safe environment, transparency in operations, compliance with obligations to the Board, and compliance with reporting requirements of other entities to which the charter holder is accountable.

Additional Obligations. This measure evaluates whether the charter holder complies with all other applicable operational obligations addressed in law, rule, regulation and the charter contract, including the charter holder's history of judgments, court orders, or other obligations of the charter holder not addressed by other measures in the Operational Framework.

Measures

For each of the indicators, the Operational Framework provides a number of measures by which to evaluate charter holders. The measures take the form of a question about each charter holder's performance. For example:

- Is the charter holder maintaining a safe environment consistent with state and local requirements?
- Is the charter holder administering student admission and attendance appropriately?

Information and guidance specific to each measure is provided below in the Measures In Detail section.

Metrics

Metrics are expectations set forth in evaluating a measure. For example, to evaluate whether the charter holder is administering student admission and attendance appropriately we look to a number of areas where the charter holder must meet existing expectations established by laws, rules, regulations, or provisions of the charter contract. Examples of metrics for this measure are:

- Compliance with applicable laws, rules, regulations and provisions of the charter contract relating to enrollment policies, procedures and processes.
- Accurate submission of estimated counts and attendance data to the Arizona Department of Education.

~~Throughout the Operational Framework, the Board set forth the metrics for evaluating the different measures within the "Meets Standard" rating.~~

Rating the Measure

In the area of operational performance, the Board is frequently faced with absolute standards for compliance. Legal and contractual requirements are either met or they are not. But in order to avoid penalizing charter holders for anything less than perfection, the Board has adopted a reasonable measure of sufficiency that acknowledges attentiveness and prudent compliance.

For each measure, a charter holder receives one of three ratings based on evaluation of the established metrics.

Meets Standard. The “Meets Standard” rating is achieved when the charter holder demonstrates compliance with all metrics in the measure.

Does Not Meet Standard. The “Does Not Meet Standard” rating remains consistent for each measure in the Operational Framework and reads:¹

“The charter holder has failed to comply in the manner described above²; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.”

This means that the charter holder has failed to meet the metrics at any point during the evaluation period; however, the charter holder has either brought the school into compliance or has made sufficient progress toward compliance. See the Evaluation section for information on how the number of “Does Not Meet Standard” designations is incorporated into a determination of whether the charter holder meets the Board’s operational [performance](#) expectations.

Falls Far Below Standard: The “Falls Far Below Standard” rating also remains consistent for each measure in the [Organizational-Operational](#) Framework and reads:³

“The charter holder failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).”

“Falls Far Below Standard” means the charter holder is currently not in compliance with the requirement. A charter holder may also receive this rating if the charter holder has implemented remedies to come into compliance, but the initial noncompliance created a significant risk to the operation of the school. Finally, a charter holder may also receive this rating if it has been chronically out of compliance throughout the review period.

¹ The Operational Framework includes one exception to this rule; see Measure 1.a. in the Measures In Detail section.

² “...manner described above” meaning as described in the Meets Standard section which specifies the metrics being evaluated.

³ The Operational Framework includes one exception to this rule; see Measure 1.a in the Measures In Detail section.

USING USE OF THE OPERATIONAL FRAMEWORK

Collecting Evidence

Similar to the Academic and Financial Performance Frameworks, the Board will utilize the information it has available in evaluating the various measures of the Operational Framework. The evidence that is necessary to determine whether the charter holder is meeting each measure is based on availability of existing data and the capacity of the Board's staff to collect, analyze, and report out the information. Some measures in the Operational Framework require periodic monitoring to ensure compliance, while others can be analyzed annually during site visits or through reports submitted by the charter holder to the Board. Others may only be reviewed when the Board is presented with information that warrants evaluation.

Common ways the Board will collect data to evaluate charter holders' operational performance, beginning with the least intensive approach, include:

Expectation that the terms of the charter will be honored. The Board does not have the capacity to monitor or review every operational function of each charter holder's activity related to the operation of a school. Nor does the Board desire to burden the charter holder with annual reviews of such operational functions. However, there is an expectation that the charter holder will comply with the contract terms, whether monitored regularly or not. The Operational Framework provides a space for the Board to report any substantiated cases of noncompliance in areas where it may not routinely evaluate the school. For example, there is an expectation that the charter holder will not charge tuition or fees as a condition of enrollment, but the Board does not review the enrollment forms of each charter holder annually. —A complaint to the Board may warrant a direct review or investigation of the charter holder's enrollment practices. The burden of providing evidence of compliance lies with the charter holder. Open investigations and findings in which the charter holder is engaged in a right of appeal will not be rated in any performance measure.

Required reporting. Under the law and contract and through established rules, the charter holder is required to report or verify compliance with specific operational functions to the Board. For example, the charter holder is required to submit an annual financial and compliance audit, which is conducted by an independent certified public accountant and includes determinations of compliance with multiple operational functions.

Third-Party reviews. Another way to verify compliance is to seek reviews from a third party reviewer (e.g. the Board may rely on the Exceptional Student Services ~~Section-section~~ of the Arizona Department of Education (ADE) to assess compliance with ~~compliant with~~ laws relating to the education of students with disabilities). This allows for the Board to access expert opinions, while at the same time, reducing redundancy in review and evaluation of the charter holder. Open investigations and findings in which the charter holder is engaged in a right of appeal will not be rated in any performance measure.

Observed practice. The Board may determine compliance for certain measures in the Operational Framework through direct observation. For example, students may be counted and attendance practices may be monitored during a site visit to verify compliance with attendance reporting requirements.

Investigations. At times, the Board may receive complaints or assertions from individuals that a school is not in compliance. When the Board receives a complaint and determines that the allegation may be a violation of contract or law, it will investigate. Open investigations will not be rated in any performance measure. Substantiated violations will be reflected in the appropriate measure.

Evaluation

Review of Charter Holder's Operational Performance

A charter holder's operational performance will be considered by the Board throughout the term of the charter contract including, but not limited to:

- When considering a charter contract renewal request submitted by the charter holder
- During five-year interval reviews
- Upon receipt of information that a charter school operated by the charter holder has been assigned a letter grade of "F" under the state accountability system
- If a charter school operated by a charter holder has failed to meet the Board's academic performance standard for three consecutive years
- Addition of a new school that is currently not in operation under an existing charter contract⁴
- Increase in the number of students the charter holder may serve at its school(s)⁴
- Addition of, or change to, an [Arizona Online Instruction](#) program of instruction⁴
- Increase in the grade levels the charter holder is approved to serve⁴
- Replication of an existing charter⁴
- Transfer of a charter school from an existing charter contract to its own charter contract ~~held by a charter holder with a different name than the existing charter holder~~⁴
- Transfer of a charter school or charter contract from the current charter holder to an existing charter holder with a different dashboard⁴
- Transfer of the charter contract from another sponsor to the Board
- When a new charter application package is submitted by an officer, director, partner, member or charter representative of the charter holder

Because operational performance can affect a charter holder's ability to meet the obligations of its charter contract or provisions of law, a charter holder's operational performance may also be reviewed at other times when the Board makes decisions related to a charter holder's academic and/or financial performance.

Operational Eligibility for Expansion Requests

A charter holder is eligible to submit or, as applicable, to be the receiving party in the expansion requests identified below if all of the following are true:

1. A dashboard for the charter holder is available through ASBCS Online.
2. The charter holder meets the operational performance standard for the most recent completed fiscal year.
3. The charter holder meets the operational performance standard for the current evaluated year.
4. 75 percent or more of its Associated Charters meets the operational performance standard for the most recently completed fiscal year and the current evaluated year.
5. The charter holder meets the academic and financial eligibility requirements.

⁴ The Board has established operational eligibility criteria for this request (see "Operational Eligibility for Expansion Requests" section).

Expansion requests include:

- Adding a new ~~charter~~ school that is currently not in operation under an existing charter contract
- Increasing the number of students the charter holder may serve at its school(s)
- Adding or changing to an Arizona Online Instruction (~~AOI~~) program of instruction
- Increasing the grade levels the charter holder is approved to serve
- Replicating an existing charter
- Transferring a charter school from an existing charter contract to its own charter contract
- Transferring a charter school or charter contract from the current charter holder to an existing charter holder with a different dashboard

For eligibility determination purposes, an Associated Charter is:

- A charter operated by the charter holder that contracts with the same education service provider.
- A charter operated by the same charter holder.
- A charter operated by a charter holder with at least 50 percent of the officers, directors, members or partners in common, as reflected in the charter contract.

If during the processing of one of the expansion requests identified above, the Board receives new operational data for the charter holder, Associated Charter(s), or both, then Board staff will update the applicable dashboard(s) and reevaluate the charter holder's eligibility based on the most recent fiscal year operational dashboard.

Overall Rating

To provide historical context, up to five years of operational performance will be included in a charter holder's operational performance dashboard. The evaluation is completed annually and a determination is made as to whether the charter holder met the Board's operational performance standard for the fiscal year. Annual performance is used to determine whether the charter holder met the Board's operational performance expectations.

Meeting the Standard

A charter holder "Meets the Board's Operational Performance Standard" if it receives zero "Falls Far Below Standard" ratings and no more than five "Does Not Meet Standard" ratings across the Operational Framework's nine measures for the evaluated year⁵. A charter holder "Does Not Meet the Board's Operational Performance Standard" if it receives one or more "Falls Far Below Standard" ratings ~~and~~/or more than five "Does Not Meet Standard" ratings across the Operational Framework's nine measures for the evaluated year.

Meeting the Expectations

A charter holder "Meets the Board's Operational Performance Expectations" when it has an overall rating of "Meets the Board's Operational Performance Standard" for the most recent two prior years for which an overall rating was calculated and has no measure that receives a "Falls Far Below Standard" rating in the current year. A charter holder "Does Not Meet the Board's Operational Performance Expectations" when it has an overall rating of "Does Not Meet the Board's Operational Performance Standard" for at least one of the most recent two prior years for which an overall rating was calculated ~~and~~/or has at least one measure that receives a "Falls Far Below Standard" rating in the current year.

⁵ Each measure receives a single rating incorporating all metrics in the measure.

Compliance checks will continue to be conducted as part of the amendment request approval and expansion processes.

Unlike with the Board's ~~Academic and~~ Financial Performance Frameworks, charter holders that fail to meet the Board's operational performance expectations will not be required to submit additional documentation to the Board. The Board's Operational Framework translates compliance-related information obtained by the Board through various processes and from various sources into a more concise presentation, but does not change the Board's processes or the processes followed by other entities for responding to the issues referenced in the framework as they occur. As such, the charter holder will have already been provided the opportunity to respond to the issues and the charter holder's demonstration of compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board will be considered. In accordance with statute, the Board shall use the information obtained from the Operational Framework in implementing its oversight and administrative responsibilities.

MEASURES IN DETAIL

The Operational Framework catalogs, in one place, the various requirements that the charter holder must meet according to state or federal law, rules, regulations, policy and provisions of the charter contract. In this section, the measures included in the Operational Framework are defined and background information is provided to better understand each measure and what evidence is used to evaluate the charter holder against the measure.

Indicator 1: Implementation of the education program as defined in the current charter contract and state and federal law

1.a. Does the delivery of the education program and operation reflect the essential terms⁶ of the educational program as described in the charter contract?

Meets Standard:

The charter holder's education program, in operation, reflects the essential terms as described in the charter contract.

Does Not Meet Standard:

The charter holder has failed to implement the program in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to implement the program in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to implement the program in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

The Board approves new charter school applications on the basis of the proposal of the essential terms of a charter. The approved application is incorporated in the charter contract and is available to the public. The charter holder is expected to serve the grade levels identified in the charter contract and provide a program of instruction reflective of the instructional methodology and instructional delivery format included in the charter application (for example, the school will implement a STEM program, serving grades K-6, in a blended learning educational delivery model). It is anticipated that as a charter school matures, it may evolve and consider changes to its education program. The charter holder is required to request an amendment to the contract if it plans to modify the grades levels served or if the program of instruction will change from what has been incorporated in the contract (e.g., The program of instruction no longer relies on direct instruction and is solely computer based, the population served and the programs used support a transition to Alternative School status, etc.)

If the charter holder modifies or changes the essential terms of the contract without prior consent of the Board, then the charter holder is out of compliance with the contract and is not meeting the standard.

~~For example, if the charter contract states that an essential term of the charter contract is to deliver its program through a blended learning model, yet the school has been unable to purchase the technology necessary to implement this model, and evaluation methods utilized confirm that the charter holder is~~

⁶ The essential terms of the charter are the critical characteristics that define the charter school program such that in order to change these characteristics the charter holder must submit a notification or amendment request for Board approval.

~~not providing a blended learning program, the charter holder is not implementing its essential terms and is out of compliance with its charter. To remedy this failure, the charter holder could either begin implementing the blended learning model or propose to the Board a revision to its essential terms and be approved by the Board to implement the change.~~

Sources of Data: The Board may verify implementation of the essential terms through site visit observations, document reviews, interviews with stakeholders in the charter community, and required reports from the charter holder (including information collected as part of an academic performance review, annual reports and renewal applications).

<p>1.b. Does the charter holder adhere to applicable education requirements defined in state and federal law?</p>
<p>Meets Standard: The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to education requirements, including but not limited to:</p> <ul style="list-style-type: none"> • Providing services pursuant to IDEA, Section 504 of the Rehabilitation Act of 1973, and the Americans with Disabilities Act relating to the treatment of students with identified disabilities and those suspected of having a disability • Meeting the required provision of instructional days or hours • Providing any data that is required and requested for the purpose of compiling the school's achievement profile • Implementing mandated programming as a result of state or federal funding
<p>Does Not Meet Standard: The charter holder has failed to comply in the manner described above; the failure(s) were material, <i>and</i> the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.</p>
<p>Falls Far Below Standard: The charter holder has failed to comply in the manner described above, the failure(s) were material, <i>and</i> the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; <i>or</i> the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).</p>

Some elements of a public school's education program are fixed in law and may not be waived for charter schools. This measure evaluates the school's adherence to education requirements, including:

- The provision of educational services pursuant to IDEA, Section 504 of the Rehabilitation Act of 1973, and the Americans with Disabilities Act relating to the treatment of students with identified disabilities and those suspected of having a disability.- Consistent with the school's status and responsibilities as a Local Education Agency (LEA), the charter holder is required to materially comply with applicable laws, rules, regulations, and provisions of the charter contract relating to the education of students with identified disabilities and those suspected of having a disability.
- The provision of the required number of instructional days and instructional hours.
- The provision of any data that is required and requested and that is necessary to compile the achievement profile, which includes the appropriate administration of State required assessments.

- The provision of educational services and the administration of federal programs by a charter holder receiving federal funds for such programs, including adherence to the procedures for amending a grant and submitting completion reports timely.

Sources of Data: The Board will evaluate this measure through required reports, site visit observations and interviews ~~of~~with stakeholders, the annual audit reporting package, or third-party reports or monitoring. The Board will review periodic evaluations completed by the ADE of programs relating to the education of students with disabilities. The Board may follow up if complaints or reports indicate noncompliance. Follow up review could include a request of data to verify compliance, such as school calendars, student records, or reports the school may submit to the ADE (e.g. reports to verify state assessment compliance).

When evaluating the requirement that the charter holder implemented “mandated programming as a result of state or federal funding”, the Board will work with divisions within the ADE that oversee these programs (e.g. Title IV) as they have oversight responsibility and processes in place to evaluate and report findings of noncompliance.

Indicator 2: Financial and operational reporting and compliance

2.a. Do the charter holder’s annual audit reporting packages reflect sound operations?
<p><i>Meets Standard:</i></p> <p>The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the annual audit reporting package, including but not limited to:</p> <ul style="list-style-type: none"> • Timely submission of a complete annual audit reporting package • An unqualified audit opinion • An audit where first-time medium impact findings resulting in a corrective action plan (CAP) requirement have been completed • An audit devoid of second-time or repeat medium impact findings • An audit devoid of serious impact findings • An audit devoid of minimal impact findings that have been identified in three or more consecutive annual audit reporting packages
<p><i>Does Not Meet Standard:</i></p> <p>The charter holder has failed to comply in the manner described above; the failure(s) were material, <i>and</i> the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.</p>
<p><i>Falls Far Below Standard:</i></p> <p>The charter holder has failed to comply in the manner described above, the failure(s) were material, <i>and</i> the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; <i>or</i> the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).</p>

State law requires all charter holders be audited annually by an independent certified public accountant. The completed audit, also referred to as an audit reporting package, provides the Board with an independent review of a charter holder’s financial records, as well as the charter holder’s fiscal and compliance practices. The audit is the one tool ~~that~~ the Board has that annually provides information on the financial and compliance performance of each of the Board’s charter holders. As such, the audit is a

key component of the Board’s monitoring practices and its timely submission is essential for the Board to carry out its oversight responsibilities.⁷

To guide the review of the annual audits and the follow-up with charter holders on issues identified through the audits, the Board developed the [Audit & Compliance Questionnaire Follow-up Matrix](#) (“audit matrix”). The audit matrix classifies issues identified through the audits into one of three categories – minimal impact findings, medium impact findings and serious impact findings – and defines each category as follows:

- ***Minimal impact finding*** – Findings that do not significantly impact students or the operation of the school, but are still required by law or the charter contract to be rectified.
- ***Medium impact finding*** – Findings that impact the educational environment, operation of the school and/or the school’s stakeholders, but are not threats to health and safety or gross violations of Generally Accepted Accounting Principles (GAAP).⁸
- ***Serious impact finding*** – Findings that have a significant impact to the students or the operation of the school, including threats to the health and safety of students, gross violations of GAAP that increase the opportunity for fraud/theft, and repeat noncompliance.

The audits are reviewed pursuant to the Board’s administrative rules and in accordance with the audit matrix. Each charter holder that will be operating in the next fiscal year receives a letter after the audit has been reviewed. Depending on the “impact” of the issues identified, the letter may: a) indicate the charter holder should work towards correcting the issues and that staff will monitor for repeated issues in the next audit (“minimal impact”); b) indicate the audit included repeated issues that had not been addressed from the prior year’s audit (“minimal impact”); c) require the charter holder to submit a corrective action plan (“medium impact”); and/or d) state that the charter holder will be placed on an upcoming agenda for possible disciplinary action (“serious impact”). For more information on the audit review and follow-up process and the audit findings that require the submission of a corrective action plan, see Appendix B.

Critical to a charter holder’s health and stability is its ability to manage its finances well. The Board has a responsibility to protect the public’s interest and must evaluate the extent to which the charter holder is responsibly managing its finances. Charter holders’ financial statements should have an unqualified or “clean” auditor’s opinion. This means that the auditor found the financial statements to be accurate and complete, which is necessary for evaluating a charter holder’s financial health. The Board has adopted a separate Financial Performance Framework that includes the Board’s financial performance expectations of the charter holder.

Sources of Data: The annual audit reporting packages submitted to the Board, audit-related communications between the Board and a charter holder and, if applicable, a charter holder’s corrective action plans and site visits conducted by Board staff.

⁷ Most charter holders’ audits must be submitted by November 15th, which is four and a half months after the end of the fiscal year. If the charter holder’s federal grant fund expenditures exceed a certain amount, then the charter holder must undergo a single audit, which, pursuant to federal regulations, must be submitted by March 31st or nine months after the end of the fiscal year. More detailed information is available in the Board’s [audit guidelines](#).

⁸ Generally Accepted Accounting Principles are the uniform minimum standards for financial accounting and reporting. They govern the form and content of the charter holder’s financial statements.

2.b. Is the charter holder administering student admission and attendance appropriately?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements, including but not limited to:

- Accurate submission of estimated counts and attendance data to the Arizona Department of Education
- Tuition and fees
- Public school tax credits
- Attendance records
- Enrollment policies, procedures, and processes

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

Charter schools are public schools open to all eligible students. Except for the requirement that the student reside within the state, a charter school does not have enrollment boundaries. A charter holder is required to enroll all eligible pupils who submit a timely application, unless the number of applications exceeds the capacity of a program, class, grade level or building. Should the applications exceed the school's capacity, a fair and equitable enrollment process must be implemented. The revenue a charter holder generates is, in part if not all, based on its equalization (state aid) payments. These payments are initially generated from the estimated counts the charter holder provides to the ADE and subsequently from periodically uploaded attendance data. A charter school may not charge tuition, but may charge fees for any extracurricular activity and specific events or programs or courses in accordance with the law. Any assessment of fees shall contain a provision that allows the fees to be waived in the event of economic hardship to the pupil. Additionally, nonpayment of fees charged by a public school may not prevent a pupil from enrolling in, applying to or remaining enrolled in a public school. A charter holder may collect public school tax credits as prescribed by law.

Sources of Data: The Board may verify admissions processes and documents, tuition and fees, and tax credits through review of website information, document reviews, interviews with stakeholders in the charter community, and required reports from the charter holder. Attendance reporting may be verified through site visits, document review, interviews with stakeholders, and required submissions to the ADE.

2.c. Is the charter holder maintaining a safe environment consistent with state and local requirements?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements, including but not limited to:

- Maintaining appropriate facility documents, including a certificate of occupancy, fire marshal inspection report, county or municipal health inspection report, liability and property loss insurance coverage, and/or other applicable documents
- Ensuring all employees, personnel, vendors and other individuals have been properly fingerprinted and background checked

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

The evaluation of a school’s physical structure for safety purposes does not fall within the Board’s purview. However, a charter holder must obtain and be able to provide documents regarding inspections, certificates and reports supporting a facility that is safe for the operation of school and related activities. Additionally, a charter holder must be able to produce documents indicating processes have been followed and documents have been obtained which confirm and support that the appropriate checks have been completed of required personnel for the purpose of protecting the safety of students.

Sources of Data: The annual audit reporting packages submitted to the Board, audit-related communications between the Board and a charter holder and, if applicable, a charter holder’s corrective action plans, information and documents obtained during site visits, materials provided to the Board, and information provided by stakeholders.

2.d. Is the charter holder transparent in its operations?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements, including but not limited to:

- Academic performance notifications
- Availability of teacher resumes
- Open Meeting Law
- Alignment of officers, directors, members and partners of the charter holder on record as part of the charter contract with Arizona Corporation Commission submissions

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

Charter holders generally operate as private entities. Each entity contracts with an authorizer, such as the Board, for the purpose of operating a charter school. As a private entity operating in the public sector, a charter holder is required to produce and/or hold open certain documents for public inspection and to follow the law with regard to required notices.

Sources of Data: Correspondence sent by the school, information reviewed during site visits, annual audit reporting packages submitted to the Board, audit-related communications between the Board and a charter holder, information provided by stakeholders, and materials submitted for amendment requests.

2.e. Is the charter holder complying with its obligations to the Board?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements, including but not limited to:

- Timely submissions of required documents, notification requests and amendment requests
- Limited substantiated complaints
- Favorable actions taken by the Board

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

The Board is required to exercise general supervision and has oversight and administrative responsibility for the charter schools that it sponsors. In order to carry out these responsibilities, the Board depends on the charter holder to comply with reporting requirements in a timely manner.

Sources of Data: Correspondence between the Board and a charter holder, information reviewed during site visits, annual audit reporting packages submitted to the Board, audit-related communications, information provided by stakeholders, and material submitted for amendment requests.

2.f. Is the charter holder complying with reporting requirements of other entities to which the charter holder is accountable?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements monitored by other entities to which the charter holder is accountable, including but not limited to:

- Arizona Corporation Commission
- Arizona Department of Economic Security
- Arizona Department of Education
- Arizona Department of Revenue
- Arizona State Retirement System (if participating)
- Equal Employment Opportunity Commission
- Industrial Commission of Arizona
- Internal Revenue Service
- U.S. Department of Education

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

Charter holders generally operate as private entities. Each entity contracts with an authorizer, such as the Board, for the purpose of operating a charter school. As a private entity operating in the public sector, a charter holder has a fiduciary responsibility to comply with applicable laws, rules, and regulations including certain reporting requirements to other public entities.

Sources of Data: Correspondence between the Board and a charter holder, information reviewed during site visits, annual audit reporting packages submitted to the Board, audit-related communications, information provided by stakeholders, and communications and documents from other entities to which the charter holder is accountable.

Indicator 3: Additional Obligations

3. Is the charter holder complying with all other obligations?
<p>Meets Standard:</p> <p>The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements, including but not limited to:</p> <ul style="list-style-type: none">• Judgments or court orders issued by a court of competent jurisdiction• All other obligations to which the charter holder is subject to that have not been addressed by the framework's other measures
<p>Does Not Meet Standard:</p> <p>The charter holder has failed to comply in the manner described above; the failure(s) were material, <i>and</i> the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.</p>
<p>Falls Far Below Standard:</p> <p>The charter holder has failed to comply in the manner described above, the failure(s) were material, <i>and</i> the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; <i>or</i> the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).</p>

Charter holders generally operate as private entities. Each entity contracts with an authorizer, such as the Board, for the purpose of operating a charter school. As a private entity operating in the public sector, a charter holder has a fiduciary responsibility to comply with applicable laws, rules, and regulations.

Sources of Data: Correspondence between the Board and a charter holder, information reviewed during site visits, annual audit reporting packages submitted to the Board, audit-related communications, information provided by stakeholders, and communications and documents from other entities to which the charter holder is accountable.

APPENDICES

Appendix A Operational Performance Framework

Appendix B Audit Review & Follow-up Process

Appendix A

Operational Performance Framework

Indicator 1: Implementation of the education program as defined in the current charter contract and state and federal law

<p>1.a. Does the delivery of the education program and operation reflect the essential terms⁹ of the educational program as described in the charter contract?</p>
<p>Meets Standard: The charter holder’s education program, in operation, reflects the essential terms as described in the charter contract.</p>
<p>Does Not Meet Standard: The charter holder has failed to implement the program in the manner described above; the failure(s) were material, <i>and</i> the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.</p>
<p>Falls Far Below Standard: The charter holder has failed to implement the program in the manner described above, the failure(s) were material, <i>and</i> the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; <i>or</i> the charter holder has failed to implement the program in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).</p>
<p>1.b. Does the charter holder adhere to applicable education requirements defined in state and federal law?</p>
<p>Meets Standard: The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to education requirements, including but not limited to:</p> <ul style="list-style-type: none">• Providing services pursuant to IDEA, Section 504 of the Rehabilitation Act of 1973, and the Americans with Disabilities Act relating to the treatment of students with identified disabilities and those suspected of having a disability• Meeting the required provision of instructional days or hours• Providing any data that is required and requested for the purpose of compiling the school’s achievement profile• Implementing mandated programming as a result of state or federal funding
<p>Does Not Meet Standard: The charter holder has failed to comply in the manner described above; the failure(s) were material, <i>and</i> the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.</p>
<p>Falls Far Below Standard: The charter holder has failed to comply in the manner described above, the failure(s) were material, <i>and</i> the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; <i>or</i> the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).</p>

⁹ The essential terms of the charter are the critical characteristics that define the charter school program such that in order to change these characteristics the charter holder must submit a notification or amendment request for Board approval.

Indicator 2: Financial and operational reporting and compliance

2.a. Do the charter holder's annual audit reporting packages reflect sound operations?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the annual audit reporting package, including but not limited to:

- Timely submission of a complete annual audit reporting package
- An unqualified audit opinion
- An audit where first-time medium impact findings resulting in a corrective action plan (CAP) requirement have been completed
- An audit devoid of second-time or repeat medium impact findings
- An audit devoid of serious impact findings
- An audit devoid of minimal impact findings that have been identified in three or more consecutive annual audit reporting packages

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

2.b. Is the charter holder administering student admission and attendance appropriately?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements, including but not limited to:

- Accurate submission of estimated counts and attendance data to the Arizona Department of Education
- Tuition and fees
- Public school tax credits
- Attendance records
- Enrollment policies, procedures and processes

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

2.c. Is the charter holder maintaining a safe environment consistent with state and local requirements?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements, including but not limited to:

- Maintaining appropriate facility documents, including a certificate of occupancy, fire marshal inspection report, county or municipal health inspection report, liability and property loss insurance coverage, and/or other applicable documents
- Ensuring all employees, personnel, vendors and other individuals have been properly fingerprinted and background checked

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

2.d. Is the charter holder transparent in its operations?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements, including but not limited to:

- Academic performance notifications
- Availability of teacher resumes
- Open Meeting Law
- Alignment of officers, directors, members and partners of the charter holder on record as part of the charter contract with Arizona Corporation Commission submissions

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

2.e. Is the charter holder complying with its obligations to the Board?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements, including but not limited to:

- Timely submissions of required documents, notification requests and amendment requests
- Limited substantiated complaints
- Favorable actions taken by the Board

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

2.f. Is the charter holder complying with reporting requirements of other entities to which the charter holder is accountable?

Meets Standard:

The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements monitored by other entities to which the charter holder is accountable, including but not limited to:

- Arizona Corporation Commission
- Arizona Department of Economic Security
- Arizona Department of Education
- Arizona Department of Revenue
- Arizona State Retirement System (if participating)
- Equal Employment Opportunity Commission
- Industrial Commission of Arizona
- Internal Revenue Service
- U.S. Department of Education

Does Not Meet Standard:

The charter holder has failed to comply in the manner described above; the failure(s) were material, *and* the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.

Falls Far Below Standard:

The charter holder has failed to comply in the manner described above, the failure(s) were material, *and* the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; *or* the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).

Indicator 3: Additional Obligations

3. Is the charter holder complying with all other obligations?
<p><i>Meets Standard:</i></p> <p>The charter holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to operational requirements, including but not limited to:</p> <ul style="list-style-type: none">• Judgments or court orders issued by a court of competent jurisdiction• All other obligations to which the charter holder is subject to that have not been addressed by the framework's other measures
<p><i>Does Not Meet Standard:</i></p> <p>The charter holder has failed to comply in the manner described above; the failure(s) were material, <i>and</i> the charter holder has demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance to the satisfaction of the Board.</p>
<p><i>Falls Far Below Standard:</i></p> <p>The charter holder has failed to comply in the manner described above, the failure(s) were material, <i>and</i> the charter holder has not demonstrated remedies that have resulted in prompt and sufficient movement toward compliance to the satisfaction of the Board; <i>or</i> the charter holder has failed to comply in the manner described above and regardless of whether or not the charter holder demonstrated remedies that have resulted in compliance or prompt and sufficient movement toward compliance, the failure(s) were material or significant to the operation of the school(s).</p>

Appendix B

Audit Review & Follow-up Process

The audit reporting packages are reviewed pursuant to Board [administrative rule](#) and in accordance with the Board's [Audit & Compliance Questionnaire Follow-up Matrix](#) ("audit matrix"). Each charter holder that will be operating in the next fiscal year receives a letter after the audit reporting package has been reviewed. Depending on the "impact" of the issues identified, the letter may: a) indicate the charter holder should work towards correcting the issues and that staff will monitor for repeated issues in the next audit ("minimal impact findings"); b) indicate the audit reporting package included repeated issues that had not been addressed from the prior year's audit ("minimal impact findings"); c) require the charter holder to submit a corrective action plan ("medium impact findings"); and/or d) state that the charter holder will be placed on an upcoming agenda for possible disciplinary action ("serious impact findings"). For more information, see the "Medium and Serious Impact Findings" and "Minimal Impact Findings" sections below.

Medium and Serious Impact Findings

If certain noncompliance issues are identified through the audit reporting package, the audit letter notifies the charter holder that a corrective action plan must be submitted. Additionally, the audit letter may be used to request additional information from the charter holder to determine whether the issue involves noncompliance or to indicate that information from the audit reporting package has been forwarded to or will be reviewed by another entity with jurisdiction over the particular issue. In determining the "impact" level, the Board's audit review and follow-up process focuses less on how the issue was classified by the audit firm and more on what the issue is. Therefore, corrective action plans or additional information may be required to be submitted for material weaknesses, "no" answers in the compliance questionnaire, or because of information disclosed in the notes to the financial statements. The issues covered by this paragraph are considered medium impact findings.

After a medium impact finding has been identified in a charter holder's audit reporting package, the charter holder must have two "clean" audits to avoid having the issue classified as a "second time" or "third time". In accordance with the audit matrix, the third time Board staff identifies the same issue, which the first time required a corrective action plan, the issue will be considered a serious impact finding and the charter holder will be brought to the Board for disciplinary action. There are two possible exceptions to the charter holder being brought before the Board.

- In the first scenario, the audit identifies third-time fingerprinting issues. Due to the amount of time that has passed since the audit firm conducted its testing and the charter holder's ability to quickly address fingerprinting issues and return to compliance, the charter holder is not brought to the Board after third-time noncompliance has been identified. If the submitted corrective action plan identifies noncompliance with fingerprinting requirements, staff may proceed with civil penalties as permitted by A.R.S. §15-185 and addressed through the Board's civil penalties policy.
- In the second scenario, the charter holder's corrective action plan demonstrates the charter holder is currently in compliance. For example, the charter holder has submitted the corporate filings identified in the audit and has demonstrated that the current year's report has been filed.

Audit Issue Areas Table

The table below reflects the issue areas currently considered medium impact findings. If the medium impact finding is not sufficiently addressed by the charter holder, it may become a serious impact

finding. In accordance with the audit matrix, findings that have a significant impact to the students or the operation of the school, including threats to the health and safety of students and gross violations of Generally Accepted Accounting Principles (GAAP) that increase the opportunity for fraud/theft, would be considered serious impact findings too.

In the table below, the dark tan identifies an issue area that requires the submission of a corrective action plan to the Board while the light tan indicates that a corrective action plan is not required to be submitted to the Board. If, in the case of the dark tan areas, the audit firm indicates in the audit that the issue has been corrected subsequent to the testing date, then a corrective action plan (CAP) is not required. However, since the charter holder was not in compliance at the time the audit firm did its testing, the matter becomes part of the charter holder’s compliance history and is designated as a “no CAP” issue.

The table below in no way precludes the Board from requiring corrective action plans through the audit review and follow-up process for issues identified through the audit reporting packages that are not encompassed by the areas identified below.

	Issue Description	Follow-up Required
Arizona State Retirement System	The audit reporting package indicates the charter holder has not remitted all employee and employer contributions to the Arizona State Retirement System.	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Attendance Record Retention	The audit reporting package indicates the charter holder has not retained student attendance records as noted by statements such as, “Unable to test due to lack of attendance records” or “School did not retain sign-in/sign-out sheets”. This does not include isolated incidents, such as failure to retain one student’s withdrawal form. (See also “Instructional Hours” and “Student Attendance Matters”.)	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Audit Opinion	The independent auditor’s report on the charter holder’s financial statements includes a modified opinion (i.e., qualified opinion, disclaimer of opinion or adverse opinion) rather than an unqualified or “clean” opinion. Modified opinions resulting solely from the financial statements being prepared assuming the charter holder will continue as a going concern do not fall into this category. The going concern disclosure is considered under the Board’s Financial Performance Framework.	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history. If the reason cited for the modified opinion is a departure from GAAP, then the issue will be considered a serious impact finding. In addition to requiring a corrective action plan, the charter holder will be placed on an agenda for Board consideration.
Classroom Site Fund	The audit reporting package indicates	The charter holder must submit a

	the charter holder: a) does not have sufficient cash at year-end to cover the Classroom Site Fund (CSF) cash carryover balance at year-end; b) has used CSF monies for expenses not authorized by the CSF statute; and/or c) has used CSF monies to supplant, rather than supplement, existing funding from other sources.	corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Corporate/ Contract Filings	The audit reporting package indicates the charter holder has not made the appropriate corporate filings with the Arizona Corporation Commission or other similar bodies or the charter holder has not submitted to the Board the appropriate requests to amend its charter contract, and at the time the audit was reviewed, the filings or requests were still outstanding.	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Current with Payment Plan	The audit reporting package indicates the charter holder: a) has paid all audited fiscal year taxes and/or contributions to the applicable entities; b) has submitted all required reports for the audited fiscal year to the applicable entities; c) has a payment plan(s) for prior year taxes and/or contributions; <u>and</u> d) is current in making its payments under the payment plan(s). (See also “Taxes”.)	The audit letter references the noncompliance. A corrective action plan is not required to be submitted to the Board. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Employment Eligibility	The audit reporting package indicates the charter holder has not complied with E-Verify requirements, I-9 requirements, or both for some or all employees. (See also “Employment Eligibility CAP”.)	For first-year noncompliance, the audit letter reminds the charter holder of its responsibility to comply with these requirements and provides links to additional information to assist in bringing the charter holder back into compliance. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Employment Eligibility CAP	The audit reporting package identifies <u>repeated</u> noncompliance with E-Verify requirements, I-9 requirements, or both for some or all of the charter holder’s employees. (See also “Employment Eligibility”.)	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Fingerprinting	The audit reporting package indicates the charter holder has failed to properly	The charter holder must submit a corrective action plan. The noncompliance

	<p>fingerprint its personnel and/or vendors. (See also “Fingerprinting Emergency Hire”.)</p>	<p>becomes part of the charter holder’s contractual and legal compliance history.</p>
<p>Fingerprinting Emergency Hire</p>	<p>The audit reporting package indicates the charter holder failed to comply with all requirements for hiring an individual under statute’s emergency hire provisions. For this option to be considered (rather than the “Fingerprinting” option above), the emergency hire issue must be the only fingerprinting noncompliance identified in the audit reporting package and the individual’s or individuals’ fingerprint clearance card application(s) must have been on file with the Arizona Department of Public Safety when the audit firm completed its testing.</p>	<p>The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.</p>
<p>Fiscal Matters</p>	<p>The audit reporting package identifies possible significant weaknesses in the charter holder’s accounting practices (e.g., commingling of personal and business expenses) and/or contracting and purchasing practices (e.g., an individual and related party company paid to provide the same services), or the audit reporting package identifies fiscal matters where additional information is required to determine the charter holder’s compliance with contractual and/or statutory requirements. (See also “Internal Controls”.)</p>	<p>The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history unless, based on the additional information submitted as part of the corrective action plan, it is determined that no noncompliance existed.</p>
<p>Information Forwarded to ADE/ESS</p>	<p>The audit reporting package identifies possible significant noncompliance with laws relating to the education of students with disabilities (e.g., alleged falsification of documents). Generally, “no” answers in the Special Education section of the compliance questionnaires do not rise to this level.</p>	<p>The audit letter indicates the matter will be forwarded to Exceptional Student Services Section of the Arizona Department of Education (ADE) for review and follow-up. A corrective action plan is not required to be submitted to the Board. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.</p>
<p>Information Forwarded to Internal Revenue Service</p>	<p>The audit reporting package identifies issues that involve the interpretation of Internal Revenue Service laws and regulations (e.g., independent contractor vs. employee).</p>	<p>The audit letter indicates the matter will be forwarded to the Internal Revenue Service for review and follow-up. A corrective action plan is not required to be submitted to the Board. The noncompliance becomes part of the charter holder’s contractual and legal</p>

		compliance history.
Instructional Hours	The audit reporting package indicates the charter holder failed to provide the statutory minimum number of hours and/or days of instruction to students. (See also “Attendance Record Retention” and “Student Attendance Matters”.)	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Insurance	The audit reporting package indicates the charter holder has failed to obtain or maintain the statutorily required insurance for liability and property loss.	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Internal Controls	The audit reporting package identifies a material weakness or significant deficiency indicating the charter holder has failed to: a) maintain documentation (e.g., invoices) supporting information entered in its accounting system; b) adequately segregate accounting responsibilities and duties among different people; or c) beginning with the fiscal year 2013 audits, perform bank reconciliations or adequately safeguard cash. (See also “Fiscal Matters”.)	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Internal Controls – Federal Funds (ADE)	The audit reporting package identifies a material weakness or significant deficiency in one or more of the areas addressed in the “Internal Controls” category above. The difference between this category and the “Internal Controls” category is that these issues pertain to the expenditure of federal funds.	Since the issues pertain to federal funds, the audit letter indicates the ADE, as the entity responsible for sub-recipient monitoring, will follow-up with the charter holder, as necessary. A corrective action plan is not required to be submitted to the Board. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Internal Controls – School District (OAG)	The audit reporting package identifies a material weakness or significant deficiency in one or more of the areas addressed in the “Internal Controls” category above. The difference between this category and the “Internal Controls” category is that the charter holder, which is a school district, has received notice from the Office of the Auditor General that the school district has failed to substantially comply with the Uniform System of Financial Records.	To avoid corrective action plans having to be submitted to multiple entities and the possibility of conflicting corrective action plan requirements, the audit letter indicates the Board will monitor the charter holder’s compliance through the annual audit reporting packages and, as necessary, through communications with Office of the Auditor General. A corrective action plan is not required to be submitted to the Board. The noncompliance becomes part of the charter holder’s contractual and legal

		compliance history.
Open Meeting Law	The audit reporting package identifies significant noncompliance with Open Meeting Law requirements (e.g., meeting minutes not prepared) or raises issues that require further information (e.g., meetings held outside of Arizona). Generally, “no” answers in the Open Meeting Law section of the compliance questionnaire do not rise to this level.	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Student Attendance Matters	The audit reporting package identifies student attendance related matters that require additional information to determine the charter holder’s broader compliance with attendance requirements. These matters pertain to the charter holder’s policies and practices related to attendance taking, attendance reporting or both and usually involve potential systemic matters. (See also “Attendance Record Retention” and “Instructional Hours”.)	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Taxes	The audit reporting package indicates the charter holder has failed to comply with federal payroll or income tax requirements, state payroll or income tax requirements, and/or state unemployment contribution requirements. Specifically, the audit reporting package indicates the charter holder has: a) failed to pay the taxes or contributions due to the Internal Revenue Service, Arizona Department of Revenue and/or Arizona Department of Economic Security for the audited fiscal year, prior fiscal years or both; b) failed to submit required reports to any or all of these entities; and/or c) failed to make the required payments under a payment plan with any or all of these entities. (See also “Current with Payment Plan”.)	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.
Worker’s Comp	The audit reporting package indicates the charter holder has not complied with worker’s compensation requirements.	The charter holder must submit a corrective action plan. The noncompliance becomes part of the charter holder’s contractual and legal compliance history.

Under the operational framework, a charter holder whose audit reporting package identifies medium impact findings may receive a “Meets Standard” on Measure 2.a. as long as the corrective action plan requirements have been completed and all other metrics have been met.

Minimal Impact Findings

For issues of noncompliance that are not considered medium impact findings or serious impact findings, Board staff tracks each issue and determines if the issue is repeated in the next year’s audit reporting package. Generally, there are two exceptions to this—issues relating to the education of students with disabilities and certain issues involving student attendance reporting.

- Students with Disabilities – The Board worked with the ADE to develop the questions included in the compliance questionnaires because the Board wanted this addressed. However, for determining a charter holder’s compliance with laws relating to the education of students with disabilities, the Board relies upon the results of reviews conducted by the ADE’s Exceptional Student Services Section.
- Student Attendance Reporting – The Board currently considers certain student attendance findings as medium impact findings (see “Attendance Record Retention”, “Instructional Hours” and “Student Attendance Matters” in the table above). A copy of each charter holder’s audit reporting package is provided to the ADE, which has a unit that is responsible for conducting attendance audits of district and charter schools. This unit uses the audit reporting packages and other information to determine which school districts and charter holders will receive an attendance audit.

If repeat minimal impact findings are identified, the audit letter includes a statement indicating that repeat issues were identified in the current audit reporting package that had not been addressed from the prior year. Under the operational framework, if a minimal impact finding is identified in three or more consecutive audits, then the charter holder would receive a “Does Not Meet Standard” on Measure 2.a.