

TITLE 7. EDUCATION
CHAPTER 5. STATE BOARD FOR CHARTER SCHOOLS

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ARTICLE 1. GENERAL PROVISIONS

R7-5-101. Definitions

In this Chapter, the following definitions apply:

“Academic performance dashboard” means color-coded graphics that represent a charter school’s academic performance by measure for the three most recent fiscal years and identifies whether the schools operated by the charter holder meet the minimum academic performance expectations.

“Academic Performance Framework” means a document publicly available and posted on the Board’s web site that sets forth the minimum academic performance expectations for charter schools, measures of progress towards meeting the expectations, and consequences of failing to meet the expectations.

“Accounting industry regulatory body” means any state or federal regulatory body that has authority to discipline a certified public accountant or audit firm.

“Administrative completeness review time frame” means the number of days from the Board’s receipt of a submission for Board consideration until the Board staff determines whether the submission contains all components and is formatted as required by statute and rule.

“Annual application cycle” means the process the Board conducts each year to receive and review new charter application packages and grant or deny a charter.

“Applicant” means a person that applies to the Board for a new charter.

“Application” means the Board-approved forms and instructions used by an applicant or charter holder to apply for a new charter, transfer a charter as provided under R7-5-302(A)(1), transfer a charter school as provided under R7-5-302(A)(2), or renew or replicate a charter sponsored by the Board.

“Application package” means an application form, narratives, and documents, including exhibits and attachments, submitted by an applicant or charter holder.

~~“ASBCS Online” means the Board’s web-based interface, which is accessible through the web site of the Arizona State Board for Charter Schools.~~

“Audit” means a charter holder’s annual audit required under A.R.S. § 15-914.

“Audit contract” means an engagement letter provided by an audit firm that describes the terms of a contract between a charter holder and the audit firm.

“Authorized representative” means an individual with the power to bind an applicant contractually according to the applicant’s Articles of Incorporation, operating agreement, or by-laws.

“Board” means the Arizona State Board for Charter Schools.

“CAP” means corrective action plan.

“Charter” means a contract between a person and the Board to operate a charter school under A.R.S. § 15-181 et seq.

“Charter holder” means a person that enters into a charter with the Board.

“Charter representative” means an individual with the power to bind a charter holder contractually according to the charter holder’s Articles of Incorporation, operating agreement, or by-laws and is the point of contact with the Board for the purposes of communication and accountability to charter terms and conditions.

“Charter school” has the meaning specified at A.R.S. § 15-101.

“Date of notice” means the date on which an electronic notification is sent by the Board to an applicant or charter holder through the authorized representative or charter representative.

“Day” means a business day.

“Demonstration of sufficient progress” means the process for a charter holder to show the charter holder is making progress towards achieving the minimum academic performance expectations specified in the Academic Performance Framework.

“Department” means the Arizona Department of Education.

“Education Service Provider” means an organization that contracts with or has a governance relationship with an applicant or charter holder to provide academic services, administrative services or both. These organizations may also be commonly referred to as Charter Management Organizations or Education Management Organizations.

“Financial performance dashboard” means a color-coded graphic that represents a charter holder’s financial performance by measure for the most recent audited fiscal years and identifies whether the charter holder’s financial performance meets the minimum financial performance expectations.

“Financial Performance Framework” means a document publicly available and posted on the Board’s web site, and incorporated herein by reference, that sets forth the minimum financial performance expectations for charter holders, measures of performance, and consequences of failing to meet the expectations.

“Fiscal year” means the 12-month period beginning July 1 and ending June 30.

“Initial financial response” means the first response submitted to the Board by a charter holder assigned a summative financial performance rating of “Intervention” under R7-5-402. In its response, the charter holder must:

Provide the charter holder’s annual revenue and expense budget for the fiscal year that begins on the July 1 following the fiscal year end of the most recent audit conducted under R7-5-504 ~~and the charter holder’s budget for each quarter in the fiscal year;~~

Provide a quarterly financial report for each applicable quarter as defined in R7-5-509~~(B)~~(C)(3);

~~Provide a schedule of debt and lease obligations and the current outstanding balances for each;~~

Summarize the factors that caused or contributed to the charter holder’s financial performance in the audited fiscal year; and

Summarize the specific actions taken or being taken to improve the charter holder’s financial performance in the fiscal year that begins on the July 1 following the fiscal year end of the most recent audit conducted under R7-5-504.

“Initial probation financial response” means the first response submitted to the Board by a charter holder assigned a summative financial performance rating of “Intervention” under R7-5-402 based on the next audit conducted under R7-5-504 following the charter holder being identified as “On Probation” pursuant to R7-5-402(G), (H) or (I). In its response, the charter holder must:

Provide the charter holder’s annual revenue and expense budget for the fiscal year that begins on the July 1 following the fiscal year end of the most recent audit conducted under R7-5-504 and the charter holder’s budget for each quarter in the fiscal year; and

Provide a quarterly financial report for each applicable quarter as defined in R7-5-509(C)(3).

“June 30 quarterly financial report” means the report for the quarter ending June 30 submitted to the Board by a charter holder assigned a summative financial performance rating of “Intervention” under R7-5-402. In the June 30 report, the charter holder must include:

An unaudited balance sheet (statement of financial position) that identifies the charter holder’s results at June 30 and the charter holder’s unrestricted and restricted cash balances. Minimally, the charter holder’s restricted cash balance must include the charter holder’s unspent Classroom Site Fund monies;

An unaudited income statement (statement of activities) that identifies the charter holder’s results for the year ended June 30;

The charter holder's revenue and expense budget that ~~includes-compares year-to-date~~ actual results ~~versus budgeted results for the quarter ending through~~ June 30 to the charter holder's annual budget and, for each line item, identifies the percentage of the annual budget represented by the actual results; ~~and~~

The charter holder's calculation of its performance on all six ~~of the~~ Financial Performance Framework's measures, including all figures used in the mathematical calculations;

If not specifically listed on the unaudited income statement (statement of activities), accounting system reports or lease and debt schedules identifying, as applicable, the facility lease expense and interest expense paid by the charter holder for the fiscal year and used in the charter holder's lease adjusted debt service coverage ratio calculation; and

Accounting system reports or debt schedules identifying, as applicable, the bond, loan and capital lease principal paid by the charter holder for the fiscal year and used in the charter holder's lease adjusted debt service coverage ratio calculation.

"Operational performance dashboard" means a color-coded graphic that represents a charter holder's operational performance by measure for up to the five most recent fiscal years and identifies whether the charter holder's operational performance meets the minimum operational performance expectations.

"Operational Performance Framework" means a document publicly available and posted on the Board's web site that sets forth the minimum operational performance expectations for charter holders, measures of performance, and consequences of failing to meet the expectations.

"Overall time frame" means the number of days after receipt of a submission for Board consideration until the Board decides whether to grant or deny the request contained in the submission. The overall time frame consists of both the administrative completeness review time frame and the substantive review time frame.

"Peer review" means an external quality-control review, required by generally accepted government auditing standards, which determines whether an audit firm's internal quality-control system exists, is operating effectively, and provides assurance that established policies and procedures and applicable auditing standards are being followed.

"Performance expectations" means the minimum academic, financial, and operational performance expectations established by the Board.

"Person" means an individual, partnership, corporation, association, or public or private organization of any kind.

"Principals" means the officers, directors, members, partners, or board of an applicant or charter holder.

"Quarterly financial report" means the report for the quarters ending September 30, December 31 and March 31 submitted to the Board by a charter holder assigned a summative financial performance rating of "Intervention" under R7-5-402. In each quarterly report, the charter holder must include:

An unaudited balance sheet (statement of financial position) that identifies the charter holder's results at the quarter end date and the charter holder's unrestricted and restricted cash balances. Minimally, the charter holder's restricted cash balance must include the charter holder's unspent Classroom Site Fund monies;

An unaudited income statement (statement of activities) that identifies the charter holder's results year-to-date ~~for through~~ the quarter end date;

The charter holder's revenue and expense budget ~~for the applicable quarter~~ that ~~includes-compares year-to-date~~ actual results through the quarter end date to the charter holder's annual budget -versus budgeted results and, for each line item, identifies the percentage of the annual budget represented by the actual results; and

The charter holder's calculation of its performance on the default, unrestricted days liquidity, adjusted net income and average daily membership measures, including all figures used in the mathematical calculations.

"Serious impact finding" means an issue identified by the Board that the Board believes has or potentially has a detrimental impact on the operation of the charter school or students, such as threat to the health and safety of children, failure to meet the academic needs of children, gross violation of generally accepted accounting principles that increases the opportunity for fraud or theft, or repeated issues of noncompliance.

"Substantive review time frame" means the number of days after a submission for Board consideration is determined to be administratively complete until the Board decides whether to grant or deny the request contained in the submission.

"Sufficiently qualified" means the Board's determination that an applicant's knowledge, experience, qualifications, current and prior charter compliance, capacity, personal and professional background, and creditworthiness indicate an ability to implement a charter or operate a charter school in accordance with federal and state law and the performance expectations established by the Board.

"Supervising certified public accountant" means the certified public accountant responsible for leading the audit of a charter school or signing the final audit report.

"Technical Review Panel" means individuals approved by the Executive Director of the Board who use their expertise in charter school development, curriculum, and finance to assist the Executive Director by conducting a preliminary evaluation of an application package.

ARTICLE 2. APPLICATION FOR A NEW CHARTER; APPLICATION FOR CHARTER REPLICATION

R7-5-201. Application for a New Charter

- A.** By March 31 of each year, the Board shall approve and make available on ~~ASBCS Online~~the Board's web-based interface an application for a new charter for a specified annual application cycle.
- B.** A person that wants to establish a charter school shall submit a complete application package by the submission deadline identified in the application.
- C.** A person may submit a complete application package by using:
 1. The web-based application ~~wizard~~ on ~~ASBCS Online~~the Board's website; or
 2. An alternative submission process. Before using an alternative submission process, the person shall hand deliver or mail a signed, notarized waiver request to the Board, in the form and by the waiver deadline identified in the application, and shall waive the right to have the Board consider an application package submitted through ~~ASBCS Online~~the Board's web-based interface during the same annual application cycle. The Board shall not accept an application package through the alternative submission process unless a waiver request has been submitted by the waiver deadline and acknowledged as timely by the Board.
- D.** An applicant for a new charter shall ensure the submitted application package contains all the information, materials, documents, and attachments identified in the application and A.R.S. § 15-183(A), including the new charter application processing fee specified under R7-5-202, and is in the format specified in the application.

ARTICLE 3. POST-CHARTER ACTIONS

R7-5-301. Application for Charter Renewal; Early Renewal of Charter

- A.** The Board shall make available on its web-site instructions regarding eligibility and submission requirements for renewal and early renewal of a charter.

- B.** A charter holder shall submit to the Board electronically through ~~ASBCS Online~~ the Board's web-based interface the renewal application package identified in subsection (E) or the early renewal application package identified in subsection (L). The Board shall not accept a paper submission.
- C.** The Board shall provide the charter holder at least 72-hours' written notice of the date, time, and location of the Board meeting at which the Board will consider the charter holder's renewal or early renewal application package. The charter holder shall attend the Board meeting.
- D.** At least 18 months before a charter is scheduled to expire, the Board shall provide the charter holder with a renewal application that is customized based on the charter holder's performance history. The Board shall require a charter holder that does not meet the performance expectations specified in Article 4 to submit more information than a charter holder that does meet the performance expectations.
- E.** As required under A.R.S. § 15-183(I), a charter holder that intends to seek renewal of the charter shall submit to the Board a renewal application package at least 15 months before the charter is scheduled to expire.
- F.** The Board shall not consider a renewal application package that is not submitted by the date specified in subsection (E).
- G.** As part of the charter renewal process, Board staff shall conduct an academic-systems-review site visit, as described in R7-5-506, of the charter holder.
- H.** The Board shall notify a charter holder of the Board's decision to renew or deny renewal of the charter at least 12 months before the charter is scheduled to expire.
- I.** As specified under A.R.S. § 15-183(I), the Board may deny renewal of a charter if the Board determines the charter holder failed to meet or make sufficient progress toward the academic performance expectations or failed to meet the operational performance expectations specified in Article 4, meet the financial performance expectations specified in Article 4, complete the obligations of the charter, or comply with federal or state law or this Chapter. If the Board denies renewal of a charter, Board staff shall provide written notice to the charter holder that includes the information required under A.R.S. § 41-1092.03(A).
- J.** A charter holder is eligible to apply for early renewal of the charter if the charter holder:
 - 1. Submits to the Board a letter of intent to apply for early renewal at least 24 months before the charter is scheduled to expire;
 - 2. Has operated a school under the charter for at least five years;
 - 3. Meets the performance expectations specified in Article 4; and
 - 4. Had no compliance matters within the last three years that required action by the Board or other governmental entity.
- K.** Within 15 days after receiving a letter of intent to apply for early renewal under subsection (J)(1), Board staff shall provide written notice to the charter holder of whether the charter holder is eligible to apply for early renewal and, if eligible, shall provide the charter holder with the renewal application referenced in subsection (D).
- L.** A charter holder that receives notification under subsection (K) of eligibility to apply for early renewal shall submit to the Board the early renewal application package no later than one month after the charter holder receives notification under subsection (K).
- M.** A charter holder applying for early renewal shall continue to meet the eligibility requirements specified in subsection (J) until the Board considers the early renewal application package at the Board meeting referenced under subsection (C). The Board shall not consider an early renewal application package submitted by a charter holder that has a change in eligibility status.
- N.** Within three months after a charter holder timely submits an early renewal application package, Board staff shall conduct an academic-systems-review site visit, as described in R7-5-506, of the charter holder and shall place the charter holder's early renewal application package on an agenda for Board consideration.
- O.** As specified under A.R.S. § 15-183(I)(2), the Board may deny early renewal of a charter if the Board determines the charter holder failed to meet or make sufficient progress toward the academic performance expectations or failed to meet the operational performance expectations specified in Article 4, meet the financial performance expectations specified in Article 4, complete the obligations of the charter, or comply with federal

or state law or this Chapter. If the Board denies early renewal of a charter, Board staff shall provide written notice to the charter holder that includes the information required under A.R.S. § 41-1092.03(A).

R7-5-302. Charter Transfer Application

- A.** A charter transfer application may be used to do either of the following:
 - 1. Transfer a charter to the Board; or
 - 2. Transfer a charter school that has operated under an existing charter for at least three years to its own charter with the same educational program and financial and operational processes.
- B.** The Board shall make available on its web-site instructions regarding eligibility and submission requirements for transfers specified under subsection (A).
- C.** A charter holder that intends to transfer as specified under subsection (A) shall submit to the Board a letter of intent to transfer.
- D.** Within 15 days after receiving a letter of intent to transfer, Board staff shall provide written notice to the charter holder of whether the charter holder may apply for transfer.
- E.** A charter holder eligible to transfer under subsection (D) shall submit to the Board a paper charter transfer application package until electronic submission through ~~ASBCS Online~~ the Board's web-based interface is available. After electronic submission through ~~ASBCS Online~~ the Board's web-based interface is available, the Board shall not accept a paper submission.
- F.** For a transfer to occur on July 1, a charter holder shall submit the letter of intent to transfer by the last business day of November of the prior fiscal year and the transfer application package by the last business day of February of the prior fiscal year.
- G.** The Board shall provide the charter holder at least 72-hours' written notice of the date, time, and location of the Board meeting at which the Board will consider the charter holder's transfer application package. The charter holder shall attend the Board meeting.
- H.** As required under A.R.S. § 41-1073, the Board establishes the following time frames for approving or disapproving a charter transfer:
 - 1. Administrative review time frame: 15 days;
 - 2. Substantive review time frame: 60 days; and
 - 3. Overall time frame: 75 days.

R7-5-303. Charter Amendment Requests

- A.** A change to a charter requires the consent of both the Board and charter holder. To obtain the Board's consent to a change to a charter, the charter holder shall submit a charter amendment request to the Board.
- B.** A charter holder shall not act in a manner contrary to the terms of the charter without obtaining the Board's prior consent to the change.
- C.** The Board shall make available on its web-site instructions regarding eligibility and submissions requirements for each amendment request listed under subsection (D).
- D.** The Board shall accept requests for the following charter amendments:
 - 1. Add or remove a grade level to a charter;
 - 2. Addition of or change to an Arizona Online Instruction Program of Instruction; as expressly authorized under A.R.S. § 15-183(X), the Board shall charge a non-refundable processing fee of \$3,000 for each grade category involved in the charter amendment request;
 - 3. Change in charter holder entity name;
 - 4. Change in legal status of the charter holder;
 - 5. Change of entity that holds the charter;
 - 6. Change in charter mission;
 - 7. Increase or decrease the number of annual instructional days;
 - 8. Change in program of instruction including methods of instruction, criteria for promotion, and graduation requirements;

9. Exception from state procurement requirements;
 10. Exception from the Uniform System of Financial Records for Charter Schools;
 11. Change charter holder governance;
 12. Change the mailing or physical address of the charter holder;
 13. Change charter representative;
 14. Increase or decrease the number of students the charter holder may serve;
 15. Add a charter school to an existing charter;
 16. Close a charter school under an existing charter;
 17. Change membership of a charter school governing body;
 18. Change the name of a charter school;
 19. Change the mailing or physical address of a charter school;
 20. Increase or decrease the grades served at a particular charter school; and
 21. Transfer of a charter school from the current charter to another existing charter with the same educational program and financial and operational processes.
- E.** A charter holder shall submit an amendment request listed under subsection (D) to the Board electronically through ~~ASBCS Online~~ [the Board's web-based interface](#). The Board shall not accept a paper amendment request unless agreed to by Board staff and the charter holder before the amendment request is submitted.
- F.** As required under A.R.S. § 41-1073, the Board establishes the following time frames for approving or disapproving a charter amendment request:
1. Administrative review time frame: 20 days;
 2. Substantive review time frame: 40 days; and
 3. Overall time frame: 60 days.
- G.** To determine the date on which the Board will approve or disapprove an amendment request listed under subsection (D), the charter holder shall consult the Board's meeting and submission-deadline schedule, which is posted on the Board's web-site and ~~ASBCS Online~~ [the Board's web-based interface](#).
- H.** The Board shall provide the charter holder at least 72-hours' written notice of the date, time, and location of the Board meeting at which the Board will consider the charter holder's administratively and substantively complete amendment request. The charter holder shall attend the Board meeting.
- I.** The Board has delegated to staff authority to approve charter amendment requests listed under subsection (D) for which the standards for approval can be applied without the exercise of discretion.

ARTICLE 4. MINIMUM PERFORMANCE EXPECTATIONS

R7-5-402. Minimum Financial Performance Expectations

- A.** The Board shall assess a charter holder's achievement of the minimum financial performance expectations using data contained in the annual audit required under A.R.S. § 15-914 and conducted according to the standards specified in R7-5-504 and average daily membership calculations completed by the Department using student attendance data submitted to the Department by the charter holder.
1. The Board may assess a charter holder's achievement of the minimum financial performance expectations at any time.
 2. The Board shall assess a charter holder's achievement of the minimum financial performance expectations:
 - a. During the five-year-interval review required under A.R.S. § 15-183(I);
 - b. When considering a charter contract renewal request submitted by the charter holder;
 - c. Upon receipt of information that a charter school operated by the charter holder failed to meet the minimum academic performance expectations for three consecutive years;
 - d. Upon receipt of information that a charter school operated by the charter holder has been assigned a letter grade of "F" by the Department; and

- e. When making a decision related to the charter holder's achievement of the minimum academic performance expectations or compliance with its charter, other contractual agreements with the Board, federal and state law, and this Chapter.
- B.** The Board shall annually assign a charter holder a summative financial performance rating, based on measures specified in the Financial Performance Framework.
1. The Board shall assign a summative financial performance rating of "Good Standing" if the charter holder receives no measures rated "below standard" and no more than one measure rated "approaches standard" based on the most recent audit conducted under R7-5-504.
 2. The Board shall assign a summative financial performance rating of "Adequate Standing" if the charter holder receives no measures rated "below standard" and two or more measures rated "approaches standard" based on the most recent audit conducted under R7-5-504.
 3. The Board shall assign a summative financial performance rating of "Intervention" if the charter holder receives one or more measures rated "below standard" based on the most recent audit conducted under R7-5-504 or if the charter holder has received a summative financial performance rating of "Adequate Standing" for three consecutive years.
- C.** A charter holder assigned a summative financial performance rating of "Good Standing" or "Adequate Standing" based on the most recent audit conducted under R7-5-504 is financially eligible to submit to the Board, if the charter holder meets all other eligibility criteria, an expansion request to:
1. Add a new charter school to an existing charter;
 2. Add one or more grade levels to a charter;
 3. Increase the number of students the charter holder may serve;
 4. Add an Arizona Online Instruction program;
 5. Replicate an existing charter;
 6. Transfer an existing charter school to its own charter contract; or
 7. Transfer an existing charter school or charter contract from the current charter holder to an existing charter holder with a different financial performance dashboard.
- D.** A charter holder assigned a summative financial performance rating of "Intervention" based on the most recent audit conducted under R7-5-504 is not eligible to submit to the Board an expansion request specified in R7-5-402(C)(1)-(7).
- E.** The Board shall require a charter holder assigned a summative financial performance rating of "Intervention" based on the most recent audit conducted under R7-5-504 to prepare the financial intervention submissions as described in R7-5-509.
- F.** The Board shall determine that a charter holder assigned a summative financial performance rating of "Intervention" is "Not on Probation" if, after Board staff's review of the charter holder's submissions made under R7-5-509 and R7-5-501(C), all the following are true:
1. Notwithstanding subsection (F)(3), the going concern measure received a rating of "meets standard" based on the most recent audit conducted under R7-5-504.
 2. The measure or measures rated "below standard" based on the most recent audit conducted under R7-5-504 will likely improve to at least an "approaches standard" rating when calculations are completed using the charter holder's next audit conducted under R7-5-504.
 23. None of the Financial Performance Framework's other measures will likely be rated "below standard" when calculations are completed using the charter holder's next audit conducted under R7-5-504.
 34. Since Board staff made the determination in R7-5-509(D)(E) or R7-5-509(F), the Board has not substantiated any complaints involving late payroll checks to employees, or health insurance or liability insurance cancellation due to nonpayment and has not substantiated any complaints involving failure to make required retirement plan contributions or received notification from the Arizona State Retirement System of delinquent retirement contributions.
 45. Since Board staff made the determination in R7-5-509(D)(E) or R7-5-509(F), the charter holder has not been required to make any submissions under R7-5-501(C).

- G.** The Board shall determine that a charter holder assigned a summative financial performance rating of “Intervention” is “On Probation” if, after Board staff’s review of the charter holder’s submissions made under R7-5-509 and R7-5-501(C), one or more of the following are true:
1. The going concern measure received a rating of “below standard” based on the most recent audit conducted under R7-5-504.
 2. One or more of the measures rated “below standard” based on the most recent audit conducted under R7-5-504 will likely continue to be rated “below standard” when calculations are completed using the charter holder’s next audit conducted under R7-5-504.
 23. One or more of the Financial Performance Framework’s other measures will likely be rated “below standard” when calculations are completed using the charter holder’s next audit conducted under R7-5-504.
 34. Since Board staff made the determination in R7-5-509~~(D)~~(E) or R7-5-509(F), the Board has substantiated at least one complaint involving late payroll checks to employees, or health insurance or liability insurance cancellation due to nonpayment or has substantiated at least one complaint involving failure to make required retirement plan contributions or received notification from the Arizona State Retirement System of delinquent retirement contributions.
 45. Since Board staff made the determination in R7-5-509~~(D)~~(E) or R7-5-509(F), the charter holder has been required to make at least one submission under R7-5-501(C).
- H.** After Board staff’s review of the charter holder’s submissions made under R7-5-509 and R7-5-501(C), the Board shall determine that a charter holder is “On Probation” if within the most recent five-year period the charter holder has been assigned three summative financial performance ratings of “Intervention” and two summative financial performance ratings of “Adequate Standing.”
- I.** If, based on the next audit conducted under R7-5-504, a charter holder identified as “Not on Probation” under subsection F is assigned a summative performance rating of “Intervention,” then the Board shall determine that the charter holder is “On Probation.”
- J.** The Board shall determine that a charter holder meets the minimum financial performance expectations if the charter holder:
1. Receives a summative financial performance rating of “Good Standing” or “Adequate Standing” based on the most recent audit conducted under R7-5-504; or
 2. Receives a determination of “Not on Probation” under subsection (F).
- K.** The Board shall determine that a charter holder does not meet the minimum financial performance expectations if the charter holder receives a determination of “On Probation” under subsection (G) or subsection (H). A charter holder that does not meet the minimum financial performance expectations:
1. May be subject to charter oversight specified in Article 6 unless and until the charter holder achieves the minimum financial performance expectations;
 2. Shall be required, subject to the exception set forth in subsection (K)(4), to submit to the Board a financial action plan by October 30 that:
 - a. Details the specific steps being taken by the charter holder to improve its financial performance in the fiscal year that begins on the July 1 following the June 30 quarterly financial report,
 - b. Identifies the milestones the charter holder will use throughout the fiscal year to benchmark its performance against, and
 - c. Has been developed and approved by the charter holder’s governing board;~~and~~
 3. Shall be required to submit quarterly financial reports to the Board until the Board receives the charter holder’s next audit conducted under R7-5-504;~~and~~
 4. Shall not be required to submit a financial action plan if the Board has received the charter holder’s next audit conducted under R7-5-504 by no later than October 25 and based on the next audit the charter holder will be assigned a summative financial performance rating of “Good Standing” or “Adequate Standing.”
- L.** The Board shall determine that a charter holder does not meet the minimum financial performance expectations if the charter holder receives a determination of “On Probation” under subsection (I). A charter holder that does not meet the minimum financial performance expectations under subsection (I):

1. May be subject to charter oversight as specified in Article 6 unless and until the charter holder achieves the minimum financial performance expectations; and
 2. Shall be required to submit to the Board with its initial probation financial response a financial action plan that:
 - a. Details the specific steps being taken by the charter holder to improve its financial performance in the fiscal year that begins on the July 1 following the June 30 quarterly financial report,
 - b. Identifies the milestones the charter holder will use throughout the fiscal year to benchmark its performance against, and
 - c. Has been developed and approved by the charter holder's governing board.
- M.** Board staff shall report to the Board at a public meeting the audited year performance and June 30 quarterly financial report performance by measure for each charter holder that does not meet the Board's minimum financial performance expectations under subsection (K).
- N.** Board staff shall report to the Board at a public meeting the audited year performance, June 30 quarterly financial report performance and next audited year performance by measure for each charter holder that does not meet the Board's minimum financial performance expectations under subsection (L).
- NO.** If a charter holder fails to submit or fails to timely submit ~~timely~~ a complete financial action plan as the information required by subsections (K)(2), ~~(K)(3)~~ or (L)(2) by the specified deadline, Board staff shall: the failure shall be noted in the charter holder's operational performance dashboard posted on ASBCS Online.
1. Provide written notice to the charter holder that includes the reason for the finding and provides a three-day window for the charter holder to submit a complete financial action plan.
 2. If the charter holder does not submit a complete financial action plan to the Board within the window identified in subsection (O)(1), note the charter holder's failure on its operational performance dashboard and provide written notice to the charter holder of the deadline by which a complete financial action plan must be received to avoid charter oversight as specified in Article 6.
- P.** If a charter holder fails to submit or fails to timely submit a complete quarterly financial report required by subsection (K)(3) by the specified deadline, Board staff shall:
1. Provide written notice to the charter holder that includes the reason for the finding and identifies the one-day deadline by which a complete quarterly financial report must be received to avoid charter oversight as specified in Article 6.
 2. Note the failure identified in subsection (P) on the charter holder's operational performance dashboard.
- R.** If a charter holder assigned a summative financial performance rating of "Intervention" under subsection (B)(3) fails to timely submit its next audit conducted under R7-5-504, Board staff shall report the charter holder's intervention status to the Board when the Board considers action under R7-5-504(E).

R7-5-403. Minimum Operational Performance Expectations

- A.** The Board shall assess a charter holder's achievement of the minimum operational performance expectations. To avoid duplicative reporting burdens, the Board shall use data collected from a variety of sources that reflect on the charter holder's compliance with the charter contract, other contractual agreements with the Board, federal and state law, and this Chapter.
1. The Board may assess a charter holder's achievement of the minimum operational performance expectations at any time.
 2. The Board shall assess a charter holder's achievement of the minimum operational performance expectations:
 - a. When considering the following submitted by the charter holder:
 - i. An application for a new charter;
 - ii. An application to transfer a charter school from an existing charter contract to a separate charter contract;
 - iii. A request to change the legal status of the charter holder;
 - iv. A request to change the entity that holds the charter; or

- v. A request to change program of instruction including methods of instruction, criteria for promotion, or graduation requirements;
 - b. When considering an expansion request submitted by the charter holder to:
 - i. Add a new charter school to an existing charter,
 - ii. Add one or more grade levels to a charter,
 - iii. Increase the number of students the charter holder may serve,
 - iv. Add an Arizona Online Instruction program, or
 - v. Replicate an existing charter;
 - c. During the five-year-interval review required under A.R.S. § 15-183(I);
 - d. When considering an application for charter renewal submitted by the charter holder;
 - e. Upon receipt of information that a charter school operated by the charter holder failed to meet the minimum academic performance expectations for three consecutive years; and
 - f. Upon receipt of information that a charter school operated by the charter holder has been assigned a letter grade of “F” by the Department.
- B.** The Board shall annually assign a charter holder an overall operational performance rating based on the measures specified in the Operational Performance Framework, which reflect the degree to which the charter holder achieved the minimum operational performance expectations. The Board shall make each charter holder’s operational performance dashboard publicly available [on the Board’s website and post it on ASBCS Online](#).
- C.** The Board shall determine a charter holder meets the minimum operational performance standard if the charter holder receives no measure rated “falls far below standard” and no more than five measures rated “does not meet standard” for the evaluated year.
- D.** The Board shall determine a charter holder meets the minimum operational performance expectations if the charter holder receives an overall rating of “meets the Board’s operational performance standard” in both of the two most recent years for which an overall rating was calculated and has no measure rated “falls far below standard” in the current year.
- E.** The Board shall determine a charter holder does not meet the minimum operational performance expectations if the charter holder receives an overall rating of “does not meet the Board’s operational performance standard” in at least one of the two most recent years for which an overall rating was calculated or has at least one measure rated “falls far below standard” in the current year.
- F.** If the Board determines a charter holder does not meet the minimum operational performance expectations, the Board shall consider charter oversight under Article 6.

ARTICLE 5. CHARTER SUPERVISION

R7-5-501. General Supervision

- A.** A charter holder shall:
1. Comply with the provisions of its charter, contractual agreements with the Board, federal and state laws, and this Chapter; and
 2. Meet the minimum performance expectations specified in Article 4.
- B.** The Board may supervise a charter holder’s compliance with subsection (A) using any of the following means:
1. Oral or written communication with:
 - a. The charter representative or authorized charter school personnel; and
 - b. Representatives of federal, state, and local agencies having jurisdiction over operation of the charter school or having authority to investigate or adjudicate allegations of misconduct by any member of the charter school’s staff;
 2. Collection and review of reports, audits, data, records, documents, files, and communication from any source relating to any activity or program conducted by or for the charter school;
 3. A site visit as described in R7-5-502;

4. Annual academic performance review as described in R7-5-503;
 5. Annual audit and financial performance review as described in R7-5-504 and, if necessary, the financial intervention submissions as described in R7-5-509;
 6. Operational performance review as described in R7-5-505;
 7. Five-year-interval review of academic, financial, and operational performance, as described in R7-5-506; and
 8. Complaints as described in R7-5-507.
- C.** A charter holder must report the following to the Board within 10 days of receipt or occurrence:
1. Any notice from a lender or landlord regarding default;
 2. Filing a petition for bankruptcy;
 3. Any notice from the Internal Revenue Service, Arizona State Retirement System, Arizona Department of Revenue, or Arizona Department of Economic Security regarding a tax lien, levy or garnishment;
 4. Correspondence from an insurance provider related to cancellation of health or liability insurance due to nonpayment;
 5. Notice of termination of line of credit whether initiated by financial institution or charter holder when replacement credit line is not in effect; or
 6. Withdrawals from debt service reserve funds.
- D.** By September 1 of each year, each charter holder must notify the Board, in writing, of whether they have an agreement or contract with an Education Service Provider for the current school year. If the charter holder has an agreement or contract with an Education Service Provider, then the charter holder must provide:
1. The name of the Education Service Provider; and
 2. A written statement describing the services provided to the charter holder's charter school or schools by the Education Service Provider.
- E.** Each charter school must conspicuously and permanently post a link on its website to the charter school's academic performance dashboard and the charter holder's financial and operational performance dashboards on the Board's website. For new schools, the link must be conspicuously posted by September 1 of the charter school's first school year of operation.
- F.** If the charter holder fails to submit or fails to timely submit the information required in subsection (C) or subsection (D) or fails to post the link required in subsection (E) on the charter school's website, the failure shall be noted in the charter holder's operational performance dashboard ~~posted on ASBCS Online.~~
- G.** If the specified deadline has not passed, Board staff may grant a charter holder an extension to submit a CAP or other response required under subsection (C), subsection (D), subsection (E), R7-5-402(K)(2), R7-5-502(G), R7-5-504(G)(H)(1), R7-5-505(D), R7-5-505(E), R7-5-506(B)(2), R7-5-507(C), R7-5-509(B)(C), or R7-5-509(F)(I). In determining whether to grant an extension, Board staff shall consider the following, as applicable:
1. Whether the charter school at issue was in session when the Board provided notice to the charter holder;
 2. Whether the charter school at issue was in session during the period provided in the notice for the charter holder to respond to the Board; and
 3. Whether additional time is required by the charter holder because of the number or complexity of matters to be addressed.
- H.** If a charter holder fails to timely submit, to the Department, the adopted budget, annual financial report, classroom site project narrative results summary, school-level reporting form, food service annual financial report or results-based funding expenditure report or their successor reports, or any subsequent new financial report required to be submitted to the Department, Board staff shall note such failure on the charter holder's operational performance dashboard, subject to the exception set forth in subsections (H)(1) and (H)(2). The charter holder may be subject to charter oversight as specified in Article 6.
1. For the first year of a new financial report, Board staff shall provide the charter holder 10 days to submit the new financial report to the Department. Such 10-day period shall commence on the date the Board notifies the charter holder of its receipt of notification by the Department that the charter holder failed to timely submit the documents set forth in this section.

2. If the new financial report is not received and successfully processed by the Department within the window identified in subsection (H)(1), Board staff shall note such failure on the charter holder's operational performance dashboard. The charter holder may be subject to charter oversight as specified in Article 6.

R7-5-503. Annual Academic Performance Review

- A. When the Department releases the annual achievement profile under A.R.S. § 15-241, the Board shall:
1. Calculate an overall academic rating for each charter school sponsored by the Board using the Academic Performance Framework, and
 2. Make the annual overall academic performance dashboard publicly available on the Board's website and post it on ASBCS Online.
- B. If the Board determines a charter holder does not meet the Board's minimum academic performance expectations, as defined under R7-5-401(D), the Board shall require the charter holder to demonstrate sufficient progress towards achieving the minimum academic performance expectations.

R7-5-504. Annual Audit and Financial Performance Review

- A. By July 1 of each year, the Board shall make available on its web-site written requirements regarding the audit each charter school is required to submit annually under A.R.S. §§ 15-183(E)(6) and 15-914.
- B. Before beginning the audit, a charter holder or the audit firm shall submit for the Board's approval a copy of the audit contract the charter holder intends to execute with an audit firm.
1. Board staff shall approve the audit contract unless the Board has knowledge that one of the following is applicable:
 - a. A person employed by the audit firm has been convicted under federal or state law of a crime indicating lack of business integrity or honesty;
 - b. The audit firm or supervising certified public accountant is subject to a current or pending disciplinary action or a regulatory action requiring the audit firm or supervising certified public accountant to complete conditions specified by an accounting industry regulatory body;
 - c. The audit firm violates or fails to meet generally accepted auditing standards or generally accepted government auditing standards as identified by an accounting industry regulatory body;
 - d. The audit firm receives an opinion of "fail" during the audit firm's most recent peer review;
 - e. An auditor scheduled to work on the audit fails to meet the continuing professional education requirements prescribed by generally accepted government auditing standards; or
 - f. The audit firm fails to agree to adhere to the audit requirements specified in subsection (A).
 2. Within 10 days after receiving a copy of an audit contract under subsection (B), the Board shall provide the charter holder and audit firm written notice whether the audit contract is approved.
 3. If the Board disapproves an audit contract submitted under subsection (B), the Board shall include the reason for the disapproval in the written notice provided under subsection (B)(2). If the charter holder or audit firm provides documentation to the Board demonstrating the cause for the disapproval no longer exists, Board staff shall approve the audit contract and provide written notice to the charter holder and audit firm.
- C. A charter holder or the audit firm that conducts an audit for the charter holder shall submit the annual audit to the Board for a determination whether the audit is complete. Within five days after receiving the annual audit, Board staff shall provide the charter holder and audit firm written notice whether the audit is complete.
- D. Board staff shall find an audit is incomplete if it does not comply with all requirements specified under subsection (A) or if the audit is prepared by an audit firm that fails to meet the requirements under subsection (B)(1)(a)-(e). If Board staff finds an audit is incomplete, Board staff shall include the reason for the finding in the notice provided under subsection (C). If the charter holder or audit firm provides documentation to the Board demonstrating the reason for the finding no longer exists, Board staff shall find the annual audit is complete and provide written notice to the charter holder and audit firm.

- E. A charter holder that fails to timely submit ~~timely~~ a complete audit may be subject to charter oversight as specified in Article 6.
- F. Board staff shall review each audit deemed complete.
- G. The Board shall annually calculate a performance rating for each charter holder using the Financial Performance Framework, the annual audit submitted to the Board by the charter holder and the average daily membership calculations completed by the Department using student attendance data submitted to the Department by the charter holder. The Board shall make each charter holder's financial performance dashboard publicly available on the Board's website and post it on ASBCS Online.
- H. Board staff shall send notice to a charter holder after the audit is reviewed unless the Board has been notified the charter holder will not be operating during the next fiscal year.
 - 1. If the Board identifies an issue in the audit, Board staff shall direct the charter holder to address the issue and may require the charter holder to submit a CAP, as described in R7-5-510.
 - 2. The Board shall require a charter holder that receives a summative financial performance rating of "Intervention" under R7-5-402 to prepare the financial intervention submissions as described in R7-5-509.
- I. If Board staff identifies a serious impact finding in the audit, the charter holder shall be subject to charter oversight as specified in Article 6 unless the charter holder provides credible evidence to the Board that the charter holder's next audit will find the charter holder in compliance.

R7-5-509. Financial Intervention Submissions

- A. ~~Except as set forth in subsection (B), The~~the Board shall require a charter holder assigned a summative financial performance rating of "Intervention" under R7-5-402 to prepare an initial financial response, quarterly financial reports and a June 30 quarterly financial report.
- B. For a charter holder identified as "On Probation" pursuant to R7-5-402(G), (H) or (I), the Board shall require a charter holder assigned a summative financial performance rating of "Intervention" under R7-5-402 based on the next audit conducted under R7-5-504 to prepare an initial probation financial response, quarterly financial reports and a June 30 quarterly financial report.
- BC. Board staff shall provide written notice to a charter holder that is required to submit an initial financial response or initial probation financial response. Board staff shall ensure the notice includes the following:
 - 1. Information on how to access the charter holder's financial performance dashboard,
 - 2. The deadline, which will be set 30 calendar days from the date of the written notice's ~~date~~, for submitting the initial financial response or initial probation financial response to the Board, and
 - 3. The quarters that must be addressed in the charter holder's initial financial response or initial probation financial response.
 - a. If the written notice date is between October 1 and December 31, the initial financial response or initial probation financial response must address the quarter ending September 30.
 - b. If the written notice date is between January 1 and March 31, the initial financial response or initial probation financial response must address the quarters ending September 30 and December 31.
 - c. If the written notice date is between April 1 and June 30, the initial financial response or initial probation financial response must address the quarters ending September 30, December 31 and March 31.
 - d. If the written notice date is after June 30, the initial financial response or initial probation financial response must address the quarters ending September 30, December 31, March 31 and June 30.
- ED. Board staff shall review the initial financial response and prepare a report on the initial financial response. Board staff's report will answer each of the following questions and briefly explain the basis for each answer:
 - 1. Is there a sound explanation for why the charter holder underperformed on the Financial Performance Framework's measures?
 - 2. Did the charter holder perform at a level just below or well below the Financial Performance Framework's measure targets?
 - 3. In what direction is the charter holder's financial health heading?

4. Do the charter holder's proposed or implemented actions address the problems that contributed to or caused the charter holder's underperformance on the Financial Performance Framework's measures and are they realistic to implement?

DE. For each charter holder that submitted an initial financial response, Board staff shall place the charter holder in the intervention tier that aligns with the following criteria:

1. If the charter holder's financial performance dashboard based on the most recent audit conducted under R7-5-504 indicates a rating of "below standard" for the going concern or default measure and indicates a rating of "approaches standard" on zero or more measures, then the charter holder shall be placed in intervention tier 1, ~~except as set forth in notwithstanding~~ subsection ~~(D)~~(E)(5).
2. If the charter holder's financial performance dashboard based on the most recent audit conducted under R7-5-504 indicates a rating of "below standard" on two or more measures and indicates a rating of "approaches standard" on zero or more measures, then the charter holder shall be placed in intervention tier 1 unless the charter holder is placed in intervention tier 2 under subsection ~~(D)~~(E)(5).
3. If the charter holder's financial performance dashboard based on the most recent audit conducted under R7-5-504 indicates a rating of "below standard" on one measure other than the going concern measure or default measure and indicates a rating of "approaches standard" on zero or more measures, then the charter holder shall be placed in intervention tier 2 unless the charter holder is placed in intervention tier 1 under subsections ~~(D)~~(E)(4), ~~(D)~~(E)(6), ~~(D)~~(E)(7), ~~(D)~~(E)(8) or ~~(D)~~(E)(9).
4. If the report prepared by Board staff identifies a "No" as the answer to the question identified in subsection ~~(C)~~(D)(4), then the charter holder shall be placed in intervention tier 1.
5. If the charter holder's initial financial response supports that the charter holder has cured the default, then the charter holder shall either be:
 - a. Removed from the intervention process if the default measure was the only measure for which the charter holder received a rating of "below standard" based on the most recent audit conducted under R7-5-504, or
 - b. Placed in intervention tier 2 instead of intervention tier 1 if the charter holder had received a rating of "below standard" on only one other measure based on the most recent audit conducted under R7-5-504.
6. If the charter holder was required to submit a corrective action under R7-5-504(H)(1) based on the most recent audit conducted under R7-5-504 for failure to pay taxes or contributions due to the Internal Revenue Service, Arizona Department of Revenue, Arizona Department of Economic Security or Arizona State Retirement System, failure to have sufficient cash at June 30 to cover the charter holder's unspent Classroom Site Fund balance, or failure to maintain worker's compensation insurance or liability insurance, then the charter holder shall be placed in intervention tier 1.
7. If the Board has substantiated in the audited fiscal year, subsequent fiscal year or both at least one complaint involving late payroll checks to employees, or health insurance or liability insurance cancellation due to nonpayment or if the Board has substantiated in the audited fiscal year, subsequent fiscal year or both at least one complaint involving failure to make required retirement plan contributions or received notification from the Arizona State Retirement System of delinquent retirement contributions, then the charter holder shall be placed in intervention tier 1.
8. If the charter holder has been required to make at least one submission under R7-5-501(C) in the audited fiscal year, subsequent fiscal year or both, then the charter holder shall be placed in intervention tier 1.
9. If the charter holder's performance fluctuates from a summative financial performance rating of "Intervention" to a summative financial performance rating of "Adequate Standing" and then back to a summative financial performance rating of "Intervention" within the most recent three-year period, then the charter holder shall be placed in intervention tier 1.

F. For each charter holder that submitted an initial probation financial response, Board staff shall place the charter holder in intervention tier 1 and shall determine the applicability of the criteria specified in subsections (E)(6)-(E)(8) to the charter holder.

EG. Within 30 calendar days after receiving an initial financial response, Board staff shall provide the charter holder with written notice that includes the following:

1. The charter holder's intervention tier as determined under subsection ~~(D)~~(E);
2. The quarterly financial report requirements and submission deadlines;
3. The availability of Board staff's report specified in subsection ~~(C)~~(D); and
4. Any differences identified between the calculations included by the charter holder in its initial financial response and those completed by Board staff.

H. Within 30 calendar days after receiving an initial probation financial response, Board staff shall provide the charter holder with written notice that includes the following:

1. The charter holder's intervention tier as determined under subsection (F);
2. The quarterly financial report requirements and submission deadlines; and
3. Any differences identified between the calculations included by the charter holder in its initial probation financial response and those completed by Board staff.

FI. The submission deadlines for quarterly financial reports submitted subsequent to the initial financial response or initial probation financial response are as follows:

1. October 30 for the quarter ending September 30;
2. January 30 for the quarter ending December 31;
3. April 30 for the quarter ending March 31; and
4. ~~July 30~~August 15 for the quarter ending June 30.

GJ. For each quarterly financial report submitted subsequent to the initial financial response or initial probation financial response and prior to the June 30 quarterly financial report, Board staff shall determine the charter holder's current performance and compare Board staff's results to the charter holder's calculation results. Within 30 calendar days of each quarterly financial report's receipt, Board staff shall notify the charter holder in writing of:

1. The submission deadline for the next quarterly financial report; and
2. Any differences identified between the calculations completed by the charter holder and those completed by Board staff.

HK. Within 45 calendar days after receiving a June 30 quarterly financial report, Board staff shall:

1. Determine the charter holder's probation status under R7-5-402(F)-(H);
2. Update the charter holder's financial performance dashboard to reflect the charter holder's probation status; and
3. Notify the charter holder of its probation status and, if applicable, the deadline for submitting the information identified in R7-5-402(K)(2)-(3).

HL. Subject to the provision set forth in subsection (L)(1), ~~For~~ for each charter holder placed in intervention tier 1 under subsection ~~(D)~~(E) or subsection (F), Board staff shall visit each school operated by the charter holder to conduct a physical count of students and compare the information observed and obtained onsite with the number of students reported to the Department.

1. Should extraordinary circumstances preclude Board staff from completing one or more intervention tier 1 site visits, Board staff shall:

- a. Report to the Board at a public meeting the specific extraordinary circumstance and the number of site visits affected;
- b. Propose an alternative method for conducting the intervention tier 1 site visits, request a waiver of one or more intervention tier 1 site visits, or both; and
- c. Provide at least 5 days' public notice of the Board meeting identified in subsection (L)(1)(a).

2. Time permitting, Board staff may visit each school operated by a charter holder placed in intervention tier 2 under subsection ~~(D)~~(E).

JM. The charter holder's initial financial response, initial probation financial response, quarterly financial reports and June 30 quarterly financial report and Board staff's report under subsection ~~(C)~~(D) shall be ~~posted on ASBCS Online~~ made publicly available through the charter holder's financial performance dashboard.

KN. If a charter holder fails to submit or fails to timely submit ~~timely~~ a required initial financial response, initial probation financial response, required quarterly financial report or June 30 quarterly financial report, Board staff shall note the failure ~~shall be noted in on~~ the charter holder's operational performance dashboard ~~posted on ASBCS Online~~. The charter holder may be subject to charter oversight as specified in Article 6.

O. If a charter holder fails to submit a complete initial financial response or initial probation financial response by the specified deadline, Board staff shall:

1. Provide written notice to the charter holder that includes the reason for the finding and provides a three-day window for the charter holder to submit a complete initial financial response or initial probation financial response.
2. If the charter holder does not submit a complete initial financial response or initial probation financial response to the Board within the window identified in subsection (O)(1), note the failure on the charter holder's operational performance dashboard and provide written notice of the deadline by which a complete initial financial response or initial probation financial response must be received to avoid charter oversight specified in Article 6.

P. Subsequent to the initial financial response or initial probation financial response submission, if a charter holder fails to submit a complete required quarterly financial report or June 30 quarterly financial report by the specified deadline, Board staff shall:

1. Provide written notice to the charter holder that includes the reason for the finding and identifies the one-day deadline by which a complete quarterly financial report or June 30 quarterly financial report must be received to avoid charter oversight as specified in Article 6.
2. Note the failure identified in subsection (P) on the charter holder's operational performance dashboard.