

### Background

A year ago, the Board adopted its [Financial Performance Framework and Guidance](#) (“Financial Framework”). The Financial Framework includes seven measures that gauge both near-term financial health and longer term financial sustainability. If a charter holder receives one or more “Falls Far Below Standard” and/or two or more “Does Not Meet Standard”, the charter holder is required to submit additional information to the Board as part of the renewal and five-year interval review processes and for certain expansion requests.

Since August 2012, all 379 fiscal year 2012 audits have been reviewed using the Financial Framework. Based on this review, approximately one-third of the charter holders met the Board's financial performance expectations. Additionally, since August 2012, the Board has requested and received more than 50 responses from charter holders required to submit additional information due to their financial performance.

Earlier this month, staff spoke with Financial Subcommittee Chairman Norm Butler about a possible subcommittee meeting, the basis being discussion of changes to the Financial Framework. At the conclusion of the discussion, it was determined that staff is recommending only one major substantive change to the Financial Framework – the removal of the Total Liabilities to Equity Ratio (TLER) measure. No changes are being proposed to the Financial Framework's other six measures.

### Elimination of TLER Measure

The TLER reflects how leveraged a charter holder is and shows the level to which the charter holder is relying on outside funding, such as loans. While the TLER provides important information for the charter holder regarding its operations, the Board's focus is on whether a charter holder is able to pay its debts rather than on how much debt the charter holder has or should have. If the Board chooses to remove the TLER measure, the Board would no longer measure the amount of debt a charter holder has, but through the Financial Framework's Fixed Charge Coverage Ratio would continue to ascertain a charter holder's ability to service its debt.

### Other Proposed Changes

In addition to technical and clarifying changes, staff will be proposing other revisions to the Financial Framework, including:

- Clarifying the submission expectations for charter holders required to submit additional information due to their financial performance (e.g., response must include more than the statement pulled from the table found on page 14 of the Financial Framework).
- Aligning the Board's review of charter holders' financial performance to support the academic intervention schedule.
- Clarifying and reflecting the current uses of the Financial Framework by the Board (e.g. charter holders' financial performance reviewed as part of compliance checks)
- Aligning the colors used in the Financial Framework for “Meets Standards”, “Does Not Meet Standard” and “Falls Far Below Standard” with the colors used in the Academic Performance Framework.

### Board Options

Option 1: Direct staff to make the changes as outlined in the staff report, discussed during today's meeting, and as otherwise required to the Financial Performance Framework and Guidance and any related documents so that they can be presented to the full Board for approval at its September 9<sup>th</sup> meeting.

Option 2: Refer this matter to the Financial Subcommittee for a meeting to consider all proposed changes and direct the Financial Subcommittee to bring its recommendations to the full Board at a subsequent Board meeting.