
AGENDA ITEM: Compliance Matters – Annual Financial Statement and Compliance Audits**Issue**

In accordance with the Board's [Policy Statement on Board Notification of Six Months of Non-compliance](#), staff is to bring charter holders having state equalization assistance withheld for failure to timely submit their annual financial statement and compliance audits to the Board for consideration of an issuance of a Notice of Intent to Revoke the charter after two months of withholding. Pursuant to this policy, Flagstaff Montessori, L.L.C. and StrengthBuilding Partners have been placed on the agenda for the Board's consideration of the charter holders' failure to submit their fiscal year 2015 audit reporting packages ("audit").

Flagstaff Montessori, L.L.C.

On November 20, 2015, the Board approved withholding 10 percent of Flagstaff Montessori's monthly state aid apportionment for failure to submit its fiscal year 2015 audit. On November 20th, an email describing the Board's action was sent to Flagstaff Montessori. The November 20th email also included the following: "Please note that per Board policy staff will bring charter holders having state aid withheld for failure to timely submit their audits to the Board after two months of withholding for consideration of a Notice of Intent to Revoke the Charter." The withholding began with Flagstaff Montessori's December payment.

On January 4, 2016, the auditor indicated that he is waiting for a few items from the charter holder's accountant in order to finish his audit procedures. If the auditor receives what he needs, the audit will be released by January 11th.

Having reviewed the charter holder's prior compliance with submitting its audits, Board staff found Flagstaff Montessori timely submitted its audits for fiscal years 2010 through 2014.

StrengthBuilding Partners

On November 20, 2015, the Board approved withholding 10 percent of StrengthBuilding Partners' monthly state aid apportionment for failure to submit its fiscal year 2015 audit. On November 20th, an email describing the Board's action was sent to StrengthBuilding Partners. The November 20th email also included the following: "Please note that per Board policy staff will bring charter holders having state aid withheld for failure to timely submit their audits to the Board after two months of withholding for consideration of a Notice of Intent to Revoke the Charter." The withholding began with StrengthBuilding Partners' December payment.

On January 4, 2016, the charter representative indicated that the audit is "nearly completed". She is hoping the audit will be submitted before the Board meeting. She indicated she would continue to provide Board staff with updates as they become available.

Fiscal year 2015 marked the charter holder's first year of operation, making the fiscal year 2015 audit StrengthBuilding Partners' first.

Board Options

Option 1: The Board may decide to take no further action at this time and direct staff to bring this matter back to the Board at its February 2016 meeting for further consideration should the charter holders still not have submitted their fiscal year 2015 audits.¹

Option 2: The Board may vote to issue a Notice of Intent to Revoke the charter holder's charter contract. The following language is provided for consideration: The information contained in the audit is one of the primary

¹ Under this option, the current 10 percent withholding would continue until the fiscal year 2015 audit is submitted.

means the Board has to meet its statutory oversight and administrative responsibilities for the schools it sponsors. Although this is a matter that could be quickly corrected, it represents a material breach of the charter contract. Therefore, I move to issue a Notice of Intent to Revoke the charter contract of *{INSERT CHARTER HOLDER NAME(S)}* for failing to timely submit the fiscal year 2015 audit reporting package as required by A.R.S. §15-183(E)(6), A.R.S. §15-914 and the charter contract.

- Within 48 hours of receipt of the Notice the charter operator shall notify staff and parents/guardians of registered students of the Notice of Hearing on Intent to Revoke Charter and provide a school location where the copy may be reviewed;
- Within 20 days of receipt of the Notice the charter operator shall provide to the Board copies of all correspondence and communications used to comply with the preceding provision; and
- Within 20 days of receipt of the Notice the charter operator shall provide the Board with the names and mailing addresses of parents/guardians of all students registered with the school.