
AGENDA ITEM: Compliance Matters – Annual Financial Audits (Agenda Item K1)

Issue

The charter holders listed on the agenda failed to submit their fiscal year 2016 annual financial statement and compliance audits (“audit”), which were due to the Board on November 15, 2016.

General Background – Audits

[A.R.S. §15-183\(E\)\(6\)](#) and [A.R.S. §15-914](#) require charter schools to annually submit a financial audit and compliance questionnaire. For many of the Board’s charters, the audit is due 4-1/2 months after the end of the fiscal year – November 15th. In accordance with Arizona Administrative Code R7-5-503(F), a charter holder that fails to submit a complete audit reporting package by the audit deadline shall appear before the Board for possible disciplinary action.

Charters that expend over \$750,000 in federal funds are required to submit a single audit. The single audit and questionnaire for fiscal year ending June 30, 2016 are due March 31, 2017. Charters that fail to timely submit their single audits and questionnaires will be brought before the Board in April.

Background Information Specific to Charter Holders Listed on Agenda

For the fiscal year 2016 audit cycle, the Board expects to receive 411 audits – 329 financial statement audits and 82 single audits. As of the writing of this report, the Board has received 308 of the 329 financial statement audits, which were due by November 15, 2016, and 7 of the 82 single audits, which are due by March 31, 2017.

The charter holders that failed to timely submit their fiscal year 2016 audits are identified with agenda items K1 and K2. For agenda item K1, the charter holders have been grouped by the number of consecutive years they have failed to timely submit their audits.

Second Consecutive Year Late

The five charter holders listed under “Second Consecutive Year Late” failed to timely submit their audits for fiscal years 2015 and 2016. Please see the table below.

Charter Holder	Fiscal Year 2015 Audit
Bradley Academy of Excellence, Inc.	No Board action taken in April. Board approved withholding in May. Audit was received on May 19, 2016. No withholding occurred.
Flagstaff Montessori, L.L.C.	Board approved withholding in November. Audit was received on January 11, 2016. Funds withheld for 2 months.
Juniper Tree Academy	Audit received prior to November Board meeting. No Board action taken.
StarShine Academy	No Board action taken in April. Due to charter holder’s bankruptcy filing, Board was unable to withhold funds, but made a finding of noncompliance in May.
StrengthBuilding Partners	Board approved withholding in November. Audit was received on February 5, 2016. Funds withheld for 3 months.

Bankruptcy Filings

In February 2016, StarShine Academy filed for bankruptcy protection. In March 2016, Global Renaissance Academy for Distinguished Education filed for bankruptcy protection. The bankruptcy proceedings limit the actions the Board may take.

Board Options

Option 1: The Board may approve withholding 10% of the charter holders’ monthly state aid

apportionment. Staff recommends the following language for consideration: I move to find Global Renaissance Academy of Distinguished Education and StarShine Academy are in noncompliance with state law and their charter contracts for their failure to submit the fiscal year 2016 annual financial statement and compliance audit and acknowledge that had the bankruptcy filings not prevented it, the Board would withhold 10% of each charter holder's monthly state aid apportionment until the fiscal year 2016 audit is submitted to the Board.

Further, I move to find those remaining charter holders identified in item K1a through K1t are in noncompliance with state law and their charter contract for their failure to submit the annual financial statement and compliance audits and approve withholding 10% of each charter holder's monthly State aid apportionment until a complete fiscal year 2016 annual financial statement and compliance audit is submitted.

Option 2: The Board may decide to take no action at this time.