Omega Schools, Inc. - Entity ID 4295
Schools:
McDowell Site: Omega Academy (K-4), S. Sturgeon Middle School, and La Puerta H. S.

Northern Site: Stellar Prep (K-4), C. Doby Middle School, and Oasis H. S.

Transfer Executive Summary

The State Board of Education (SBE) approved a motion at its January 25, 2010 meeting not to proceed with the renewal of current charter contracts and refer charter holders currently sponsored by the SBE and whose charters are due to expire to the Arizona State Board for Charter Schools (Board) for the consideration of a transfer/renewal of the charter. Since that time, state law was amended to provide for additional charter sponsors.

For eligible charter holders sponsored by SBE that elect to request a transfer to the sponsorship of the Board, in lieu of requiring the submission of both a transfer application and a renewal application, the Board agreed to consider the timely submission of a renewal application package as a dual request to transfer sponsorship to the Board and, if approved, to request renewal of the charter. The application package is currently presented for consideration of transfer. If approved, the materials for renewal consideration will be provided at a subsequent meeting.

Sources of Evidence for this Document

Pursuant to A.R.S. 15-183.C.2 and 15-183.V, the Arizona State Board for Charter Schools (Board) may approve any charter schools transferring charters. The Board has established a process for the transfer of a charter that is based on affirmative evidence in three areas:

I. Success of the academic program, including academic achievement
II. Viability of the organization, including fiscal management and compliance
III. Adherence to the terms of the charter, including contract and legal compliance

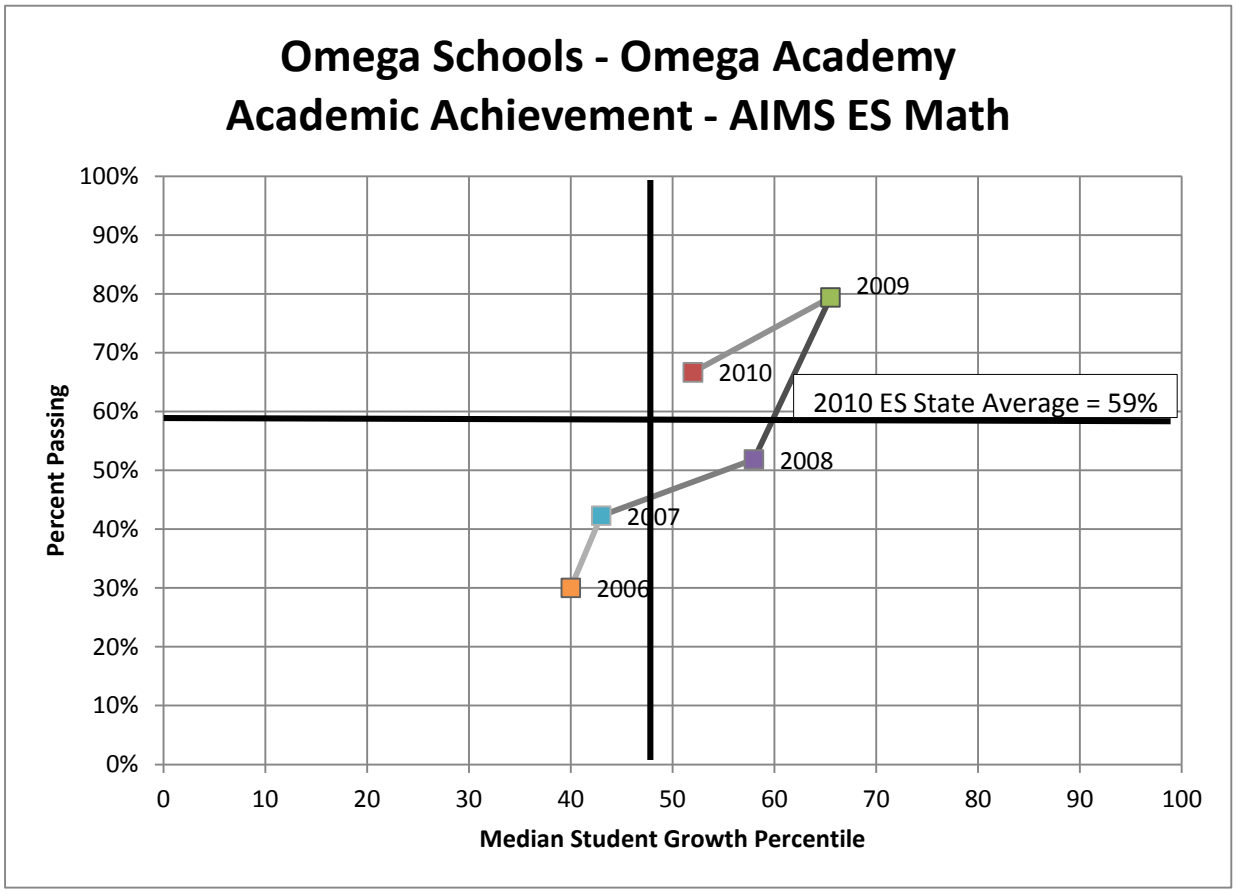
Evaluation of the charter holder's success in these three areas is based on a variety of information that will serve as sources of evidence in determining transfer of a charter. These sources include, but are not limited to:

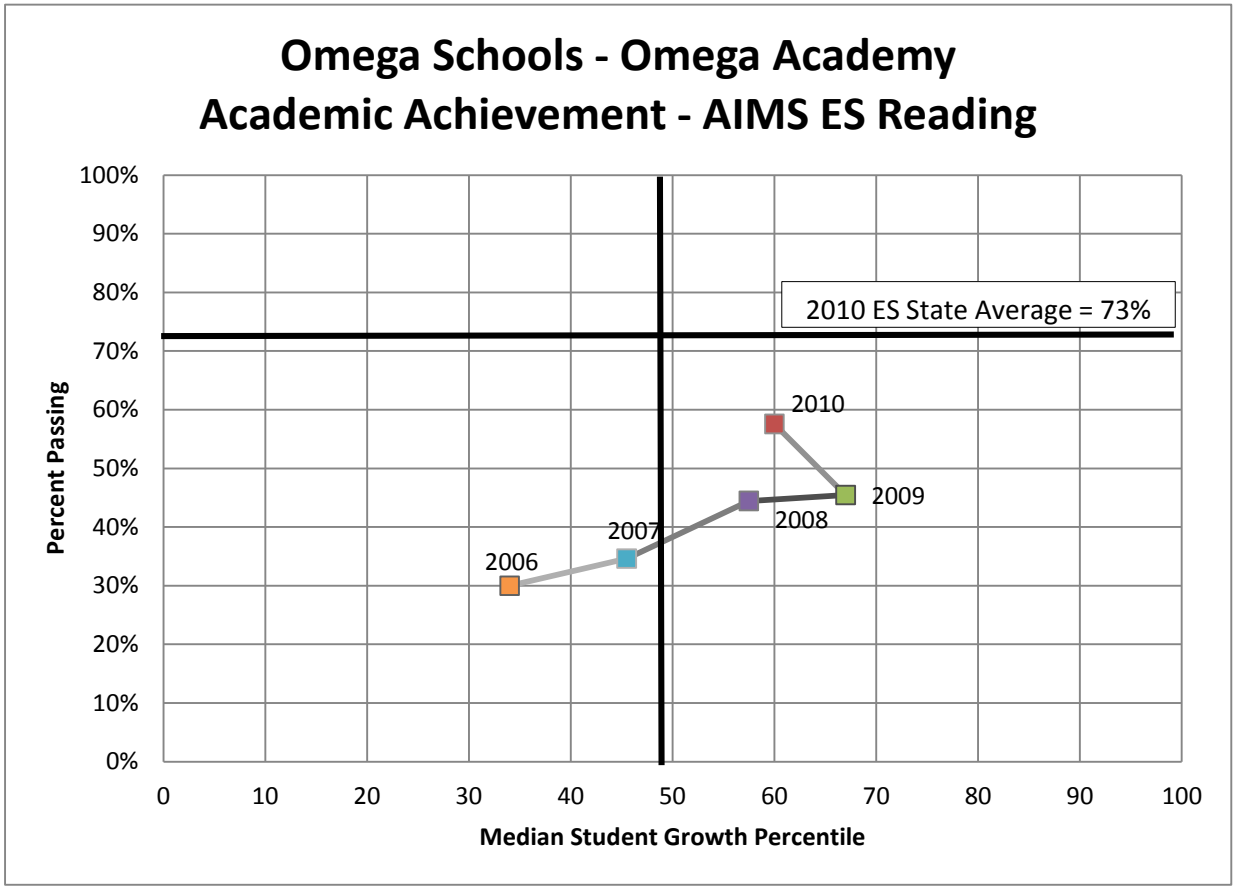
- Pupil achievement data
- Independent financial audits
- Five-year interval summary reviews
- Site visit reports
- Monitoring reports
- Application package for renewal

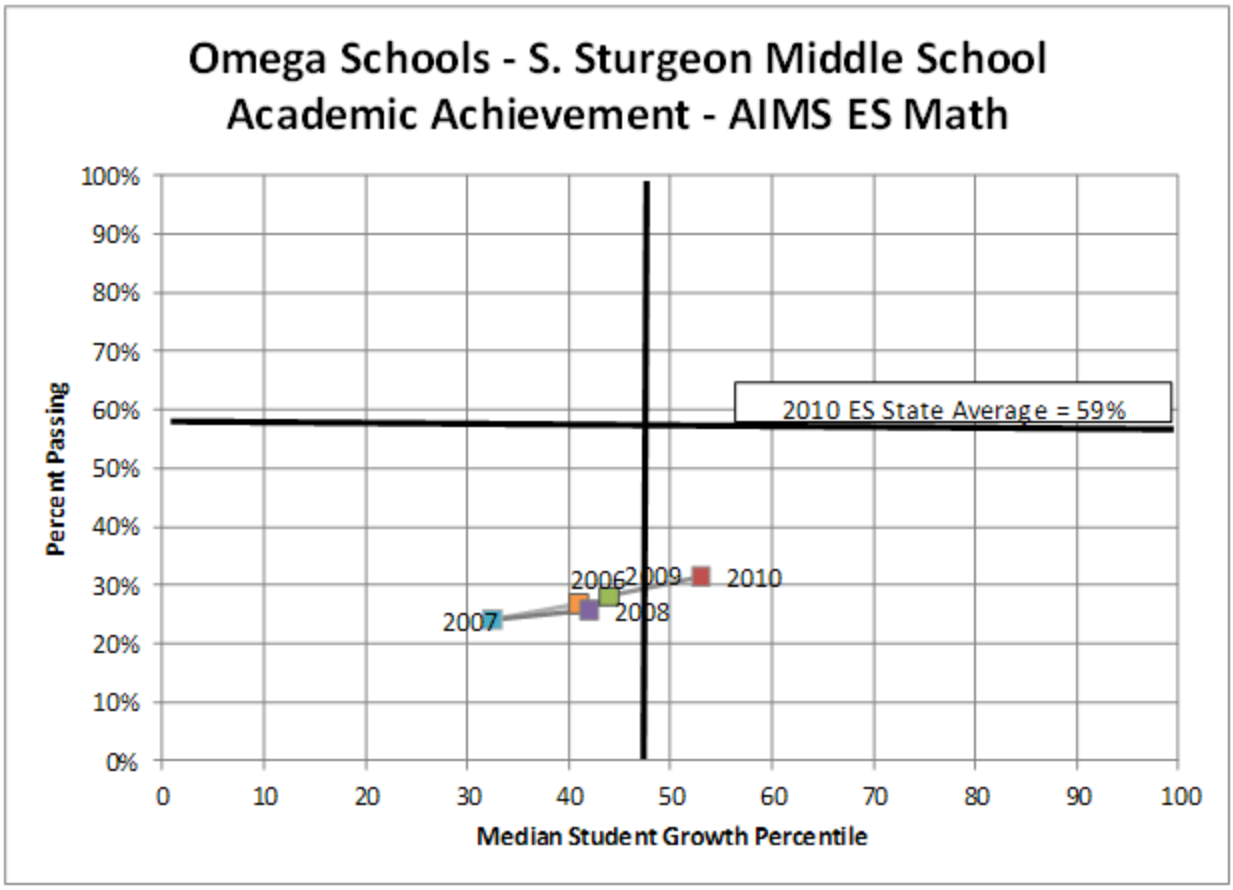
Profile

Omega Schools, Inc. operates six (6) schools serving grades K-12 (McDowell site: K-4, 5-8, and 9-12; Northern site: K-4, 5-8, and 9-12) with a total FY11 average daily membership (ADM) of 405.733. One administrator (Dean) is assigned to each site. Additional information can be found in the Summary Review.

Graphs displaying the academic achievement for the past five years, if available, are provided on the next page. The graphs for the three school sites on McDowell Road (Phoenix) are presented first and the graphs for the three school sites on Northern (Glendale) follow.


Omega Schools - Omega Academy
Academic Achievement - AIMS ES Math
Percent Passing
Median Student Growth Percentile
2009
2010
2008
2007
2006
2010 ES State Average = 59%


Omega Schools - Omega Academy
Academic Achievement - AIMS ES Reading
Percent Passing
Median Student Growth Percentile
2010 ES State Average = 73%
2010
2009
2008
2007
2006


Omega Schools - S. Sturgeon Middle School
Academic Achievement - AIMS ES Math
2010 ES State Average = 59%
2006
2009
2010
2007
2008
Percent Passing
Median Student Growth Percentile
100%
90%
80%
70%
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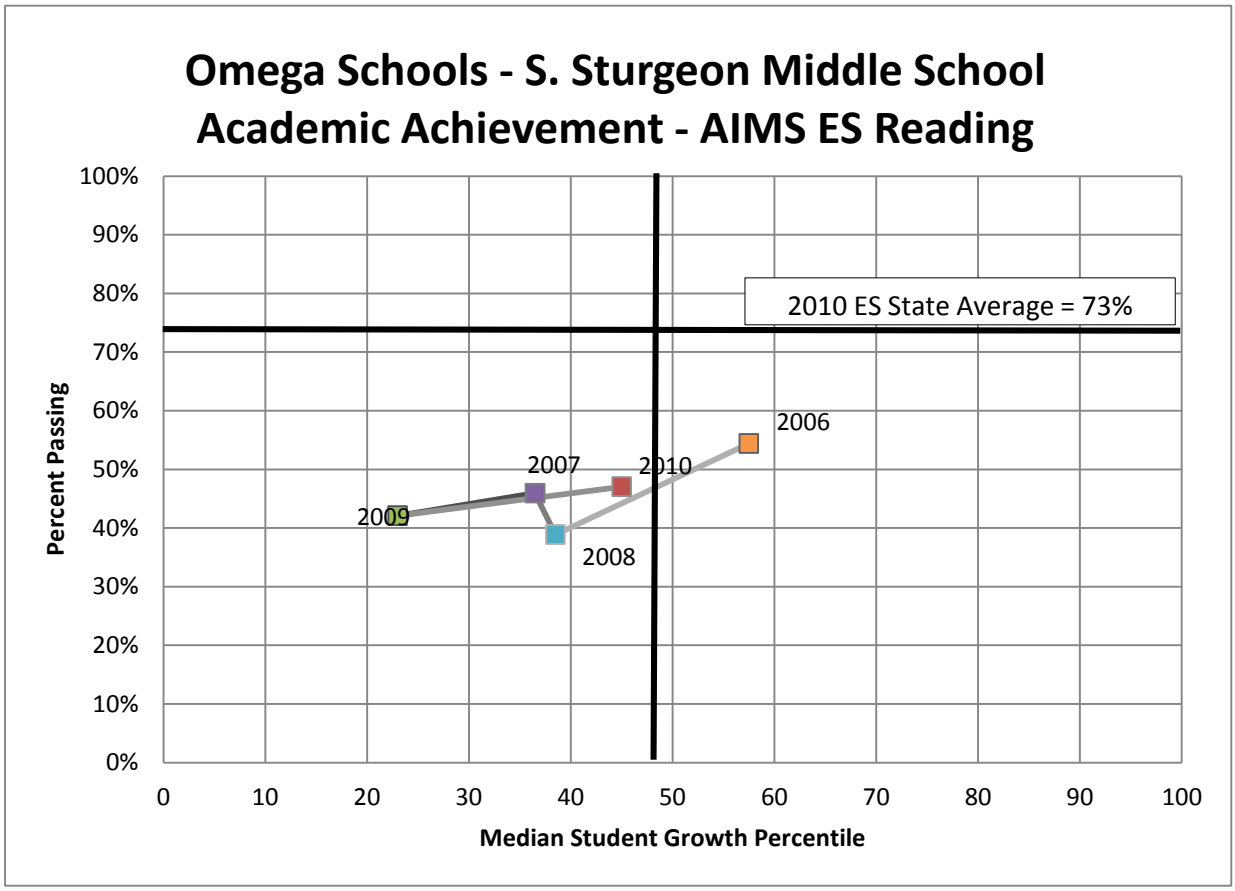
Omega Schools - S. Sturgeon Middle School
Academic Achievement - AIMS ES Reading
2010 ES State Average = 73%
2006
2007
2010
2009
2008
Percent Passing
Median Student Growth Percentile
100%
90%
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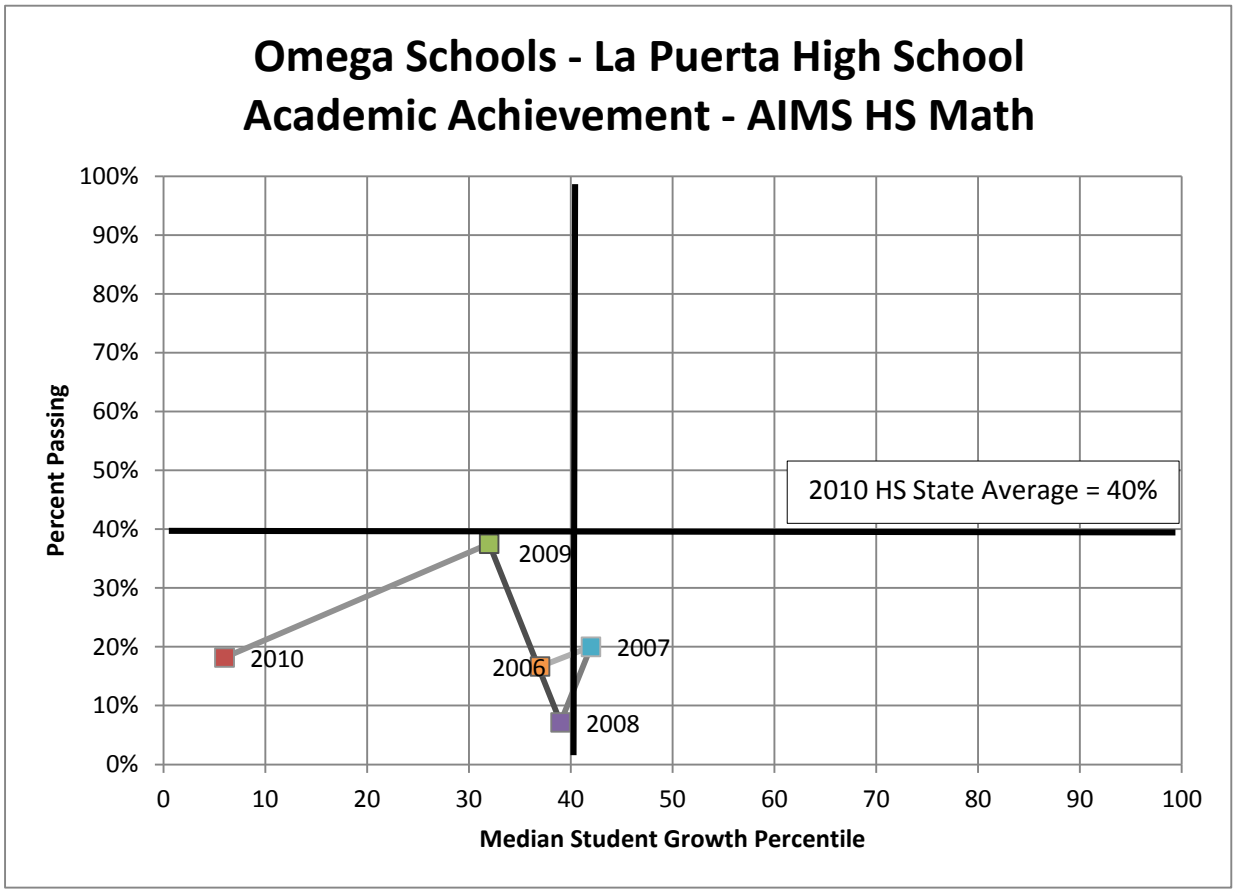
Omega Schools - La Puerta High School
Academic Achievement - AIMS HS Math
Percent Passing
100%
90%
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70%
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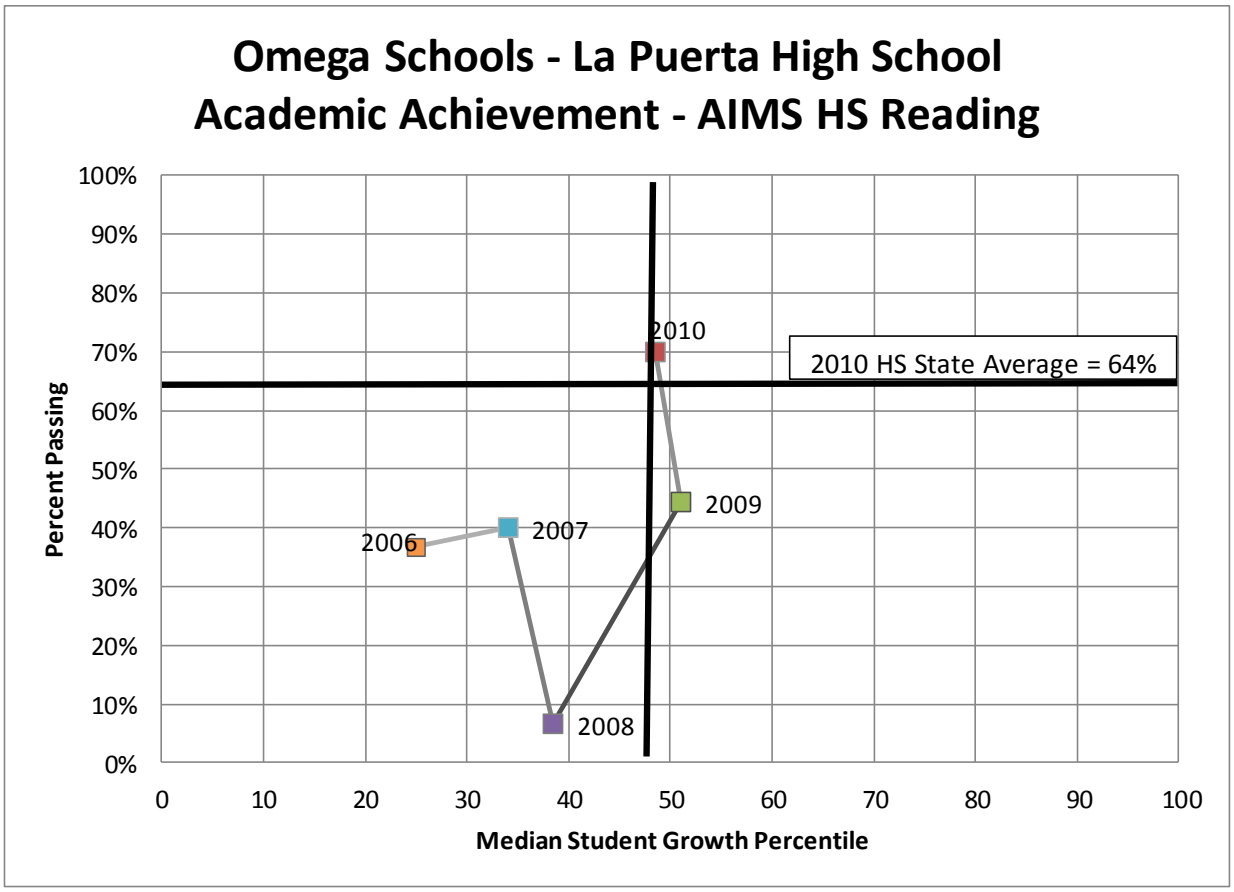
Median Student Growth Percentile
2010 HS State Average = 40%
2009
2010
2006
2007
2008


Omega Schools - La Puerta High School
Academic Achievement - AIMS HS Reading
Percent Passing
100%
90%
80%
70%
60%
50%
40%
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30
40
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60
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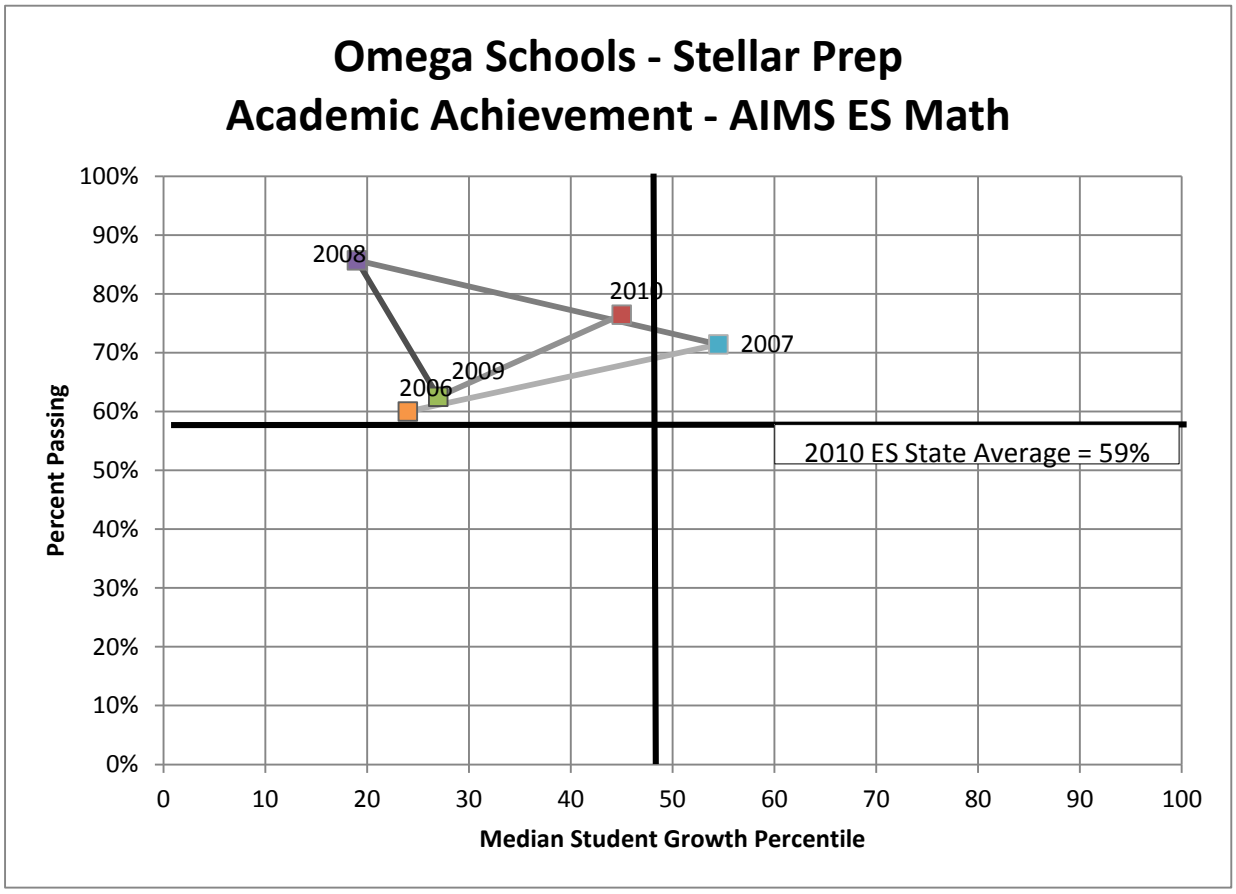
90
100
Median Student Growth Percentile
2010 HS State Average = 64%
2010
2009
2006
2007
2008


Omega Schools - Stellar Prep
Academic Achievement - AIMS ES Math
Percent Passing
Median Student Growth Percentile
2008
2010
2007
2009
2006
2010 ES State Average = 59%
100%
90%
80%
70%
60%
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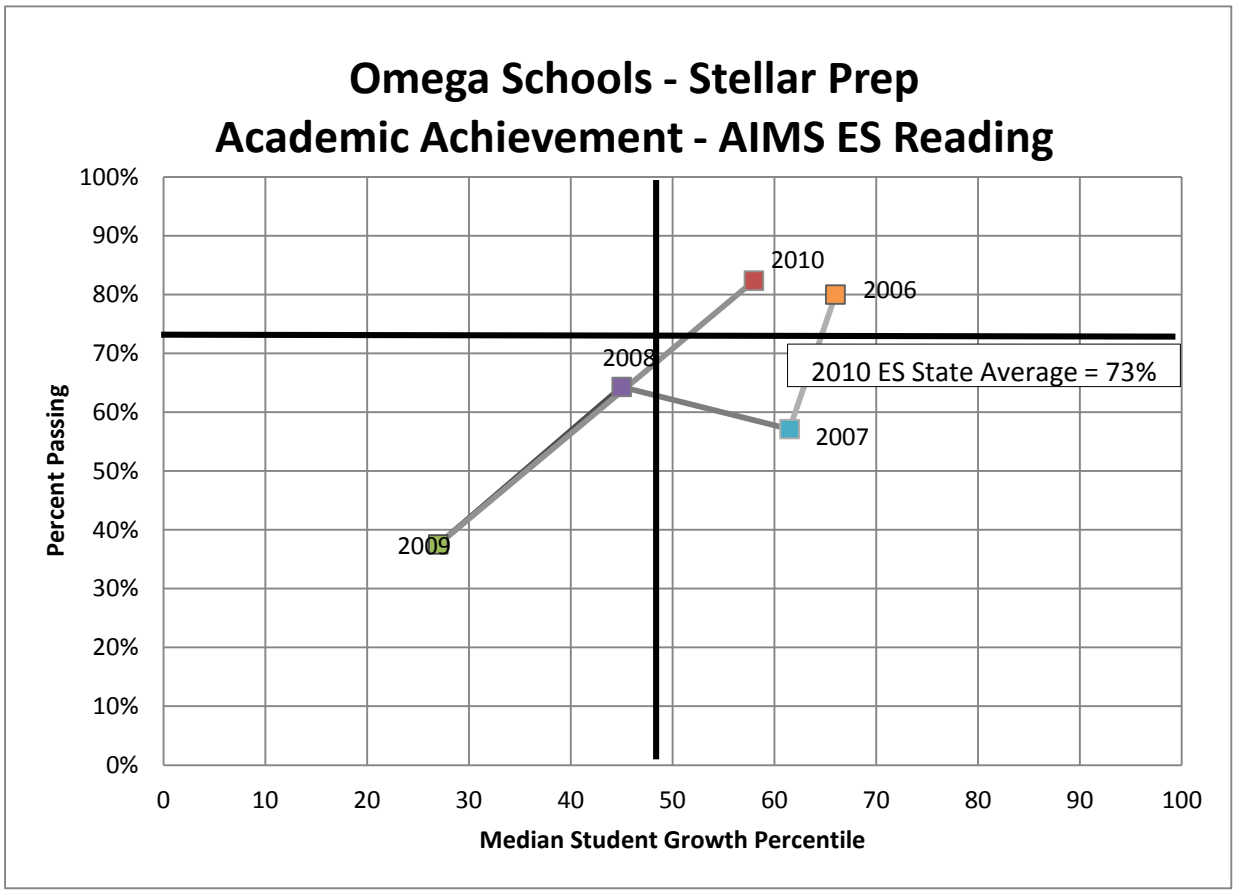
Omega Schools - Stellar Prep
Academic Achievement - AIMS ES Reading
Percent Passing
Median Student Growth Percentile
2010
2006
2008
2010 ES State Average = 73%
2007
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100%
90%
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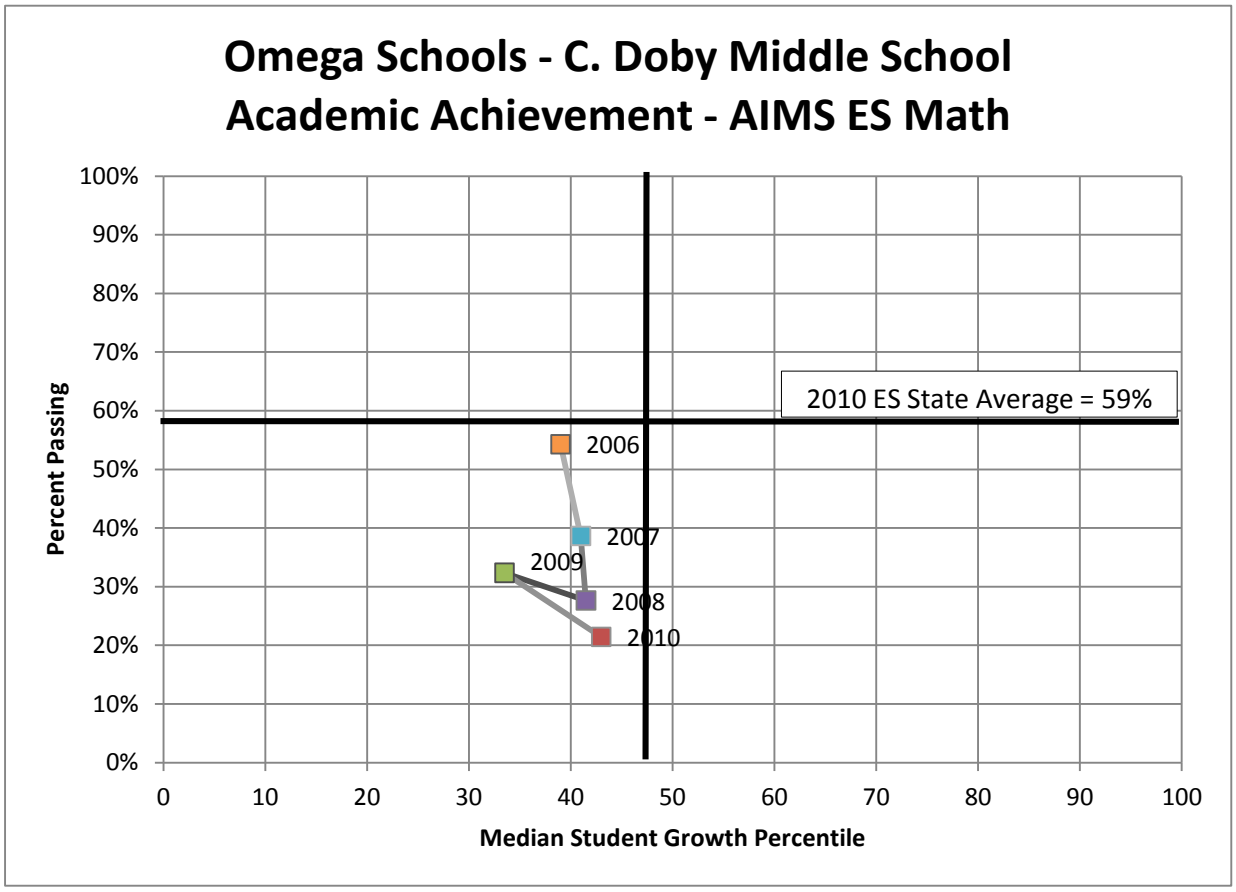
Omega Schools - C. Doby Middle School
Academic Achievement - AIMS ES Math
100%
90%
80%
70%
60%
50%
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30%
20%
10%
0%
Percent Passing
2010 ES State Average = 59%
2006
2007
2009
2008
2010
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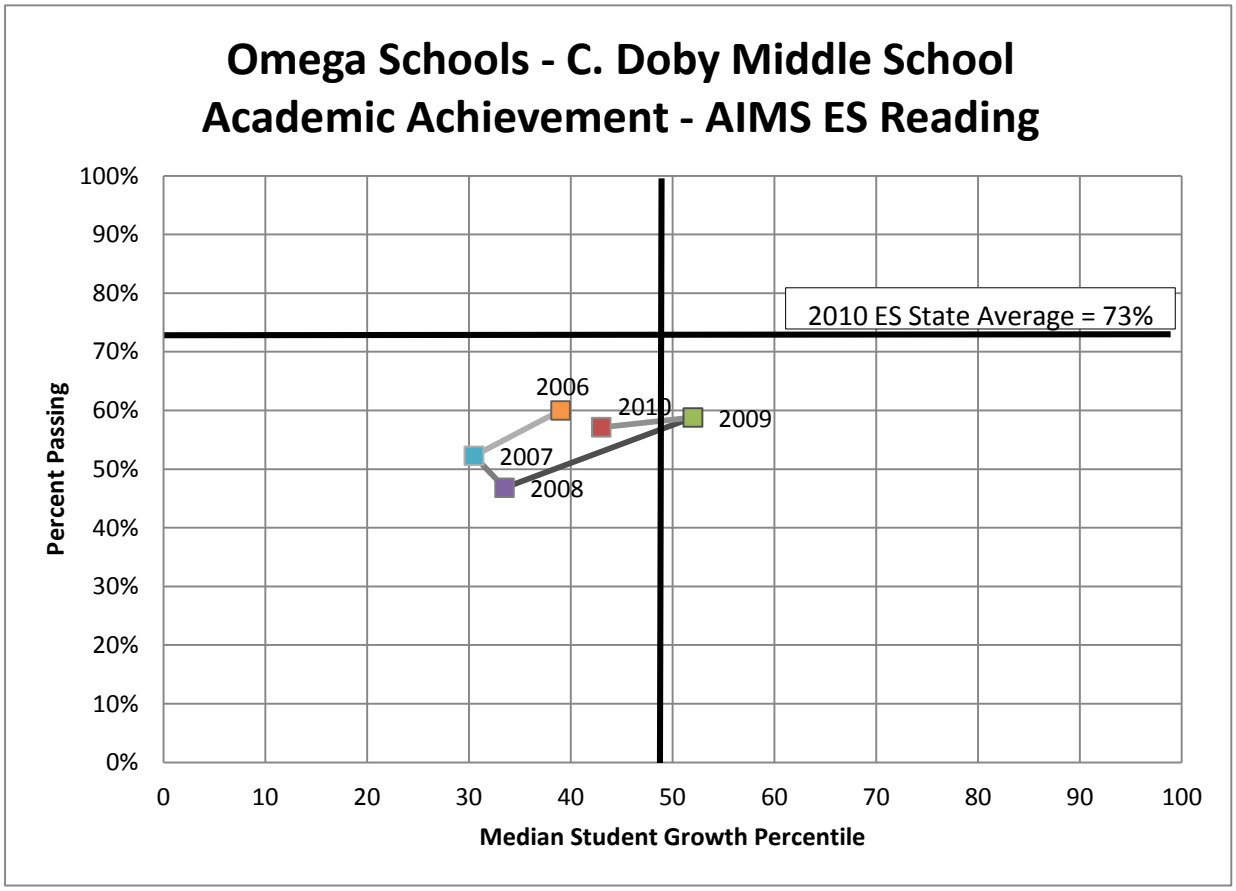
80
90
100
Median Student Growth Percentile


Omega Schools - C. Doby Middle School
Academic Achievement - AIMS ES Reading
100%
90%
80%
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2006
2010
2009
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2008
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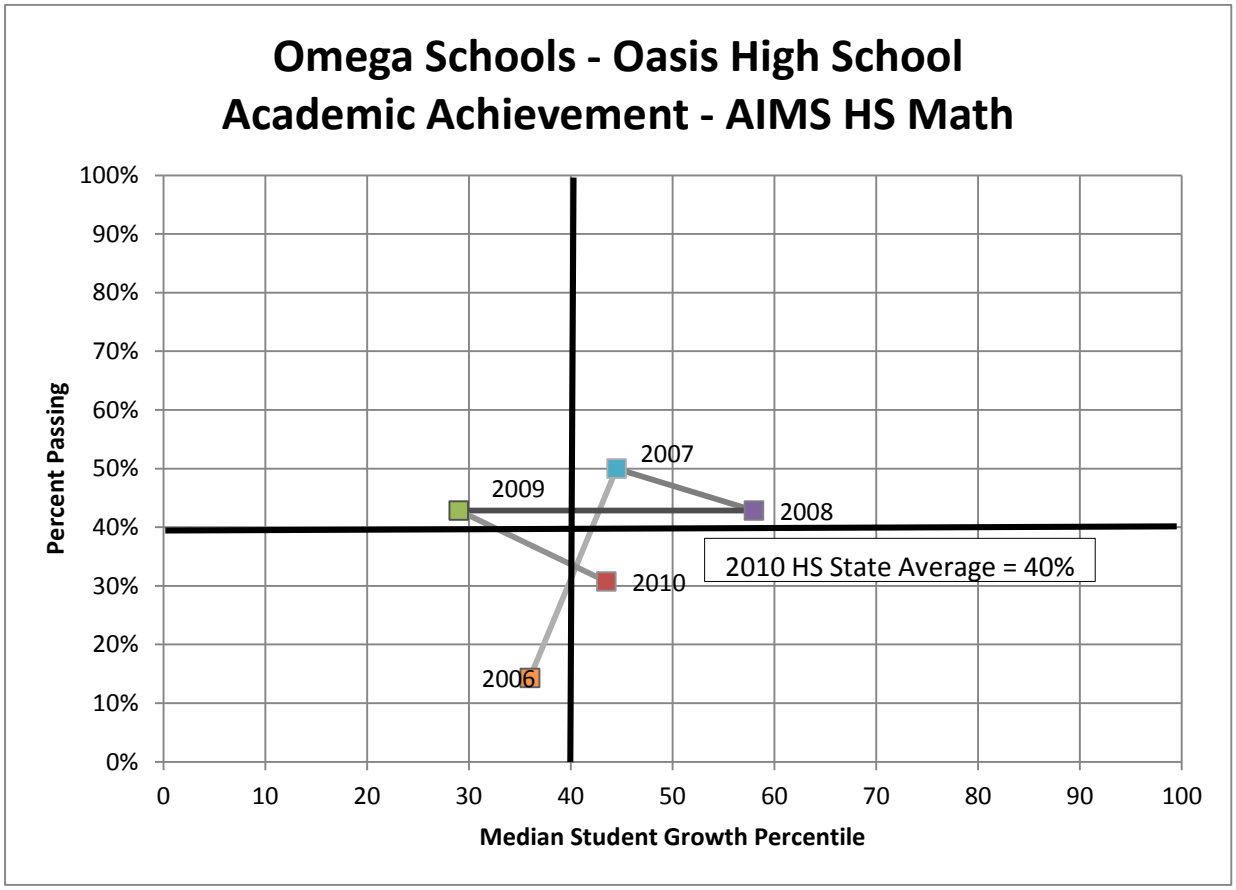
Median Student Growth Percentile


Omega Schools - Oasis High School
Academic Achievement - AIMS HS Math
Percent Passing
100%
90%
80%
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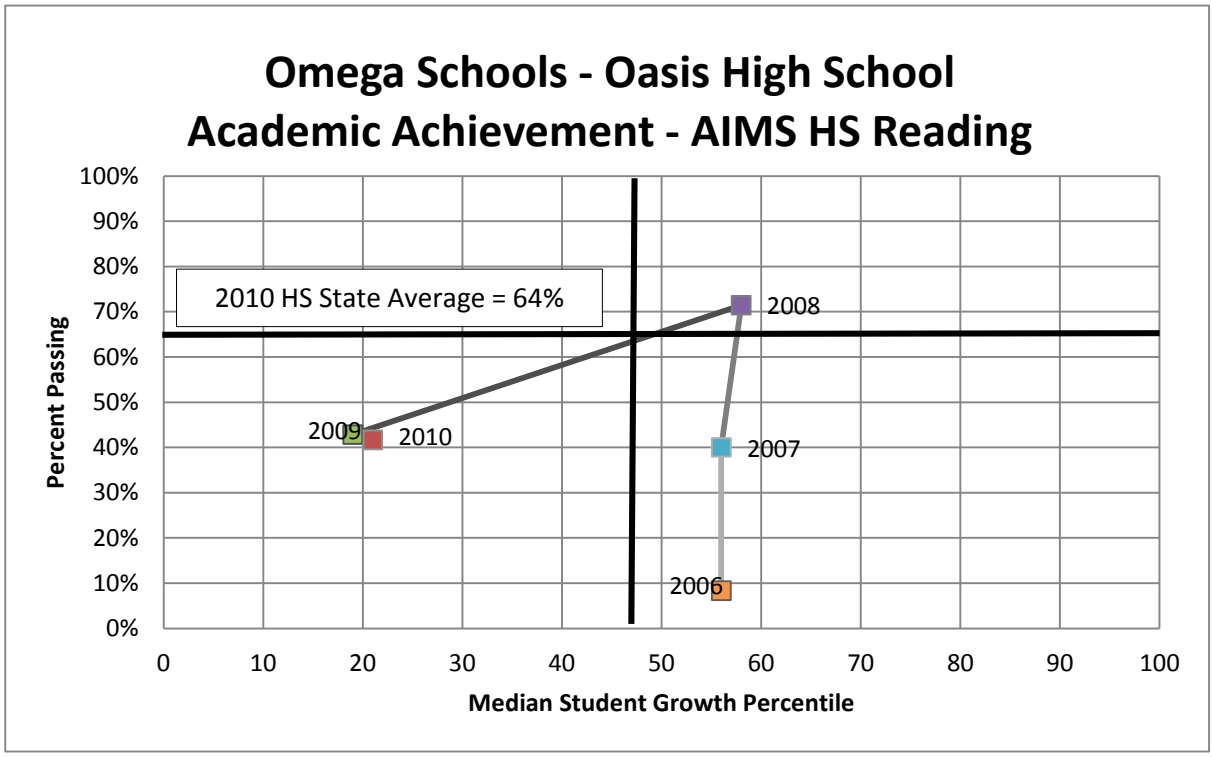
Median Student Growth Percentile
2007
2009
2008
2010
2006
2010 HS State Average = 40%


Omega Schools - Oasis High School
Academic Achievement - AIMS HS Reading
Percent Passing
100%
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Median Student Growth Percentile
2010 HS State Average = 64%
2008
2009
2010
2007
2006

I. Success of the Academic Program

The academic performance of the schools operated by the charter holder meets did not meet or demonstrate sufficient progress toward the Board's level of adequate academic performance. Therefore, the charter holder was required to submit a Performance Management Plan (PMP) of the application and to complete the budget plan.

A PMP narrative and templates were submitted for all six (6) schools and the LEA. The End Targets for all PMPs included additional targets established by the charter holder. These targets are not being considered by ASBCS. The PMP instructions require documentation of academic oversight by the board which includes meeting agendas and minutes. No documentation was submitted.

A leadership team discussion took place on June 29, 2011 at Omega Academy with Dr. Patricia Bassett (Charter Representative), Linda Parson (Business Manager), Roberta Dawson (VP, Finance and Human Resources), Donna Parish (Director of School Improvement and Turnaround), Carmen Gulley (Dean-Northern site), Elaine Penn (Director of Federal and State Grants), Edwina Glick (Executive Assistant to Dr. Bassett), Jimmie Daniels (Dean-McDowell site),Keturah Lee (Assistant Dean/Teacher), and Anita Hunt (Data Coach). The questions focused on curriculum, standards, assessment, student proficiency, and professional development. The information gleaned supported the Performance Management Plan narrative and templates submitted. The team also discussed and provided some clarification of information that should have been provided in the PMP narrative. The Performance Management Plans for the six schools and the LEA show funding from La Puerta's School Improvement Grant and/or other grants. The Arizona Department of Education school improvement team confirmed the current School Improvement Grant can only be used for La Puerta High School and that Oasis High School has applied for a School Improvement Grant.

Required submissions for the Academic Performance Section and the Renewal Budget Plan, as well as the applicable evaluation instrument and checklist, are included in the charter holder's portfolio. The evaluation instrument completed by staff identifies whether the required information provided included a Full Description, a Partial Description, or a Very Limited Description. The checklist completed by staff identifies whether the required elements of the Detailed Business Plan were addressed.

II. Viability of the Organization

Since the following conditions were all true at the time the charter holder was notified of its opportunity to apply, the charter holder was not required to submit the charter holder's Financial Sustainability portion of the application's Detailed Business Plan Section:

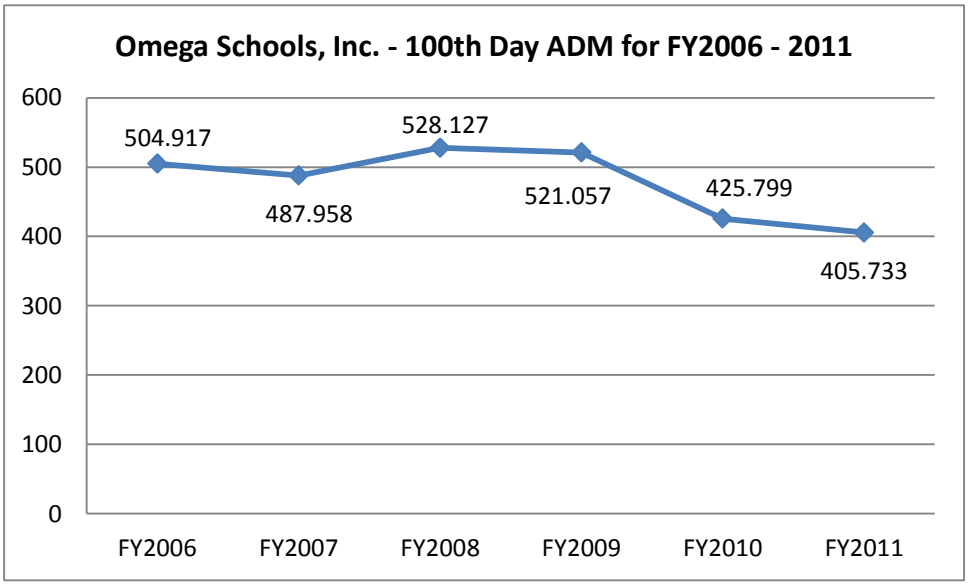
- The charter holder was not required to submit the application's Academic Performance Section.
- Neither of the two previous audits (fiscal years 2008 and 2009) identified a going concern.
- Neither of the two previous audits (fiscal years 2008 and 2009) identified that the charter holder ended the year with negative net assets (non-profit) or negative members'/shareholders' equity (for profit).

Subsequent to the charter holder's notification date, the Board received Omega Schools' fiscal year 2010 audit, which disclosed negative net assets as of June 30, 2010. On June 10, 2011, Board staff sent a letter to the charter representative. The letter included the following:

> " Had the fiscal year 2010 audit been received prior to the Board's deadline for notifying Omega Schools of its eligibility to apply, the charter holder would have been required to submit Part B of the Charter Holder's Financial Sustainability section. As indicated in the Renewal Application Instructions, at the time the Board considers the application package, the most current audit information will be provided to the Board. This letter is being provided to you as a courtesy, so that you may be prepared should the Board have questions related to the charter holder's financial sustainability when it

considers Omega Schools' request to transfer sponsorship. No further response to the Board is required at this time nor will any additional documents be accepted."

The graph on the next page shows the charter holder's actual 100th day average daily membership (ADM) for fiscal years 2006 through 2010 and the fiscal year 2011 100th day ADM as of June 13, 2011. The ADM included in the Renewal Budget Plan for fiscal year 2011 was in line with reports available through the Arizona Department of Education's website.



As indicated in the graph above, the charter holder's ADM has declined for the past three years. The charter holder experienced a decline in enrollment of approximately 18% between fiscal year 2009 and 2010. The projected ADM in the Renewal Budget Plan for fiscal years 2012, 2013 and 2014 anticipates growth of approximately 0%, 2.5% and 1%.

The fiscal year 2010 financial statements showed a deficit of $10,454 resulting from liabilities [$8,140,727] in excess of assets [$8,130,273]. As of June 30, 2010, the charter holder did not have sufficient cash or other readily available resources [$139,767] to satisfy obligations due within the next year [$826,414]. Further, for fiscal year 2010, the charter holder experienced a deficit of $620,156 resulting from expenses exceeding revenues. The Renewal Budget Plan projects a deficit in fiscal year 2012 followed by surpluses in fiscal years 2013 and 2014.

On June 18, 2007 (later modified to July 18, 2007), the charter holder filed for protection under Chapter 11 of the federal bankruptcy laws. The fiscal year 2007 audit indicated that Omega Schools' management felt that this action was necessary due to a claim filed by a construction contractor for unpaid invoices of approximately $4.3 million for the construction of one of the charter holder's campuses. The 2007 audit further states that management disagrees with any amounts owed stating that they are unsupported and unwarranted as all construction costs were paid via escrow related to a bond issue for the construction of two campuses. Additionally, the audit states, " In an effort to protect the organization against perfection of mechanic's liens, Omega's management filed for bankruptcy protection."

According to the fiscal year 2010 audit, on July 20, 2010, the debt restructuring plan was approved by the U.S. Bankruptcy Court judge. Under the terms of the restructuring, the charter holder was ordered to pay for additional costs from the construction of buildings. The balance for the note was established by the U.S. Bankruptcy Court at $2.5 million with 0% interest. The charter holder must make monthly payments of $17,000 through December 2010 and thereafter make monthly payments of $18,000, excluding the month of July each year until the balance is completely paid off.

III. Adherence to the Terms of the Charter

A. Compliance Matters Requiring Board or Other Agency Action[1]

Over the past six years, there were no items to report.

B. Other Compliance Matters[2]

In March 2007, the results of an on-site review of the No Child Left Behind (NCLB), State Johnson-O-Malley (JOM), and Migrant programs identified deficiencies in some areas. The deficiencies were required to be corrected by February 2005. The deficiencies were reported by ADE as resolved in October 2007.

In November 2006, ADE Exceptional Student Services notified the charter holder of partial compliance issues in some areas with regard to specific regulations for Part B, Individuals with Disabilities Education act (IDEA), and the Arizona Revised Statutes. The compliance issues were reported by ADE as resolved in October 2007.

The fiscal year 2010 audit identified an issue that required a corrective action plan (CAP). Specifically, the audit indicated that the charter holder did not obtain a valid fingerprint clearance card for one eligible vendor. The charter holder submitted a satisfactory CAP. Additionally, the fiscal year 2007 audit stated that two individuals did not have fingerprint clearance cards. The two employees were terminated. In this case, since the audit report demonstrated the charter holder's compliance, a CAP was not required.

In addition, the fiscal year 2008 audit identified an issue that required a CAP. Specifically, the audit indicated that the charter holder could not provide source documentation (e.g., invoices) for 1 of 30 non-payroll disbursements tested by the auditor. The charter holder submitted a satisfactory CAP.

Further, the fiscal year 2006 audit identified two issues that required a CAP. First, the audit included a qualified auditor's opinion on the fiscal year 2006 financial statements because management did not reconcile the accounts payable to the general ledger. As such, it could not be determined whether current year expenses and liabilities were properly recorded in the general ledger. Additionally, management did not reconcile the temporarily restricted net assets. Second, the audit indicated that the school did not record expenses in the Classroom Site Fund projects and did not maintain a carry forward balance for each project to determine that the funds were carried forward and used as required. The charter holder submitted a satisfactory CAP addressing both of these issues.

Finally, the audits have identified repeat audit issues. The fiscal years 2009 and 2010 audits indicated that the charter holder does not prepare interim financial statements that are complete, including note disclosures in conformity with GAAP.[3] The fiscal year 2006 audit indicated that the charter holder did not follow state procurement laws related to obtaining bids, written quotes and oral quotes. Additionally, the fiscal year 2006 audit indicated a repeat audit issue related to expenses being reported to the Arizona Department of Education through grant completion reports not always agreeing with the general ledger.

For the previous five fiscal years, the charter holder has failed to timely submit its annual audit for one or more years.

[1] For more information about the areas of compliance reviewed for this section, please see the "Renewal Guide".
[2] For more information about the areas of compliance reviewed for this section, please see the "Renewal Guide".
[3] Omega Schools' charter contract requires it to comply with GAAP.

C. Charter Holder's Organizational Membership

Because the organizational membership on file with the Board was consistent with the information on file with the Arizona Corporation Commission, the charter holder was not required to submit the charter holder's Organizational Membership portion of the Detailed Business Plan Section.

Officers and Directors: Dr. Patricia Bassett, Janice Ehrlich, Clinton McJunkin, Dr. Michael Jones, Edwina Glick, Rozann Chernov

Staff Recommendation

Transfer is based upon consideration of academic, fiscal, legal, and contractual compliance of the charter holder. In this case, there is a current debt restructuring plan and a record of academic performance that does not currently meet or demonstrate sufficient progress toward the Board's level of adequate academic performance. With that taken into consideration, along with the information in the transfer application package, I move to approve Omega Schools, Inc.'s request for transfer of its charter from the State Board of Education to the Arizona State Board for Charter Schools effective July 1, 2011 with the understanding that continued or additional deficiencies in future performance may negatively impact the Board's decision with regard to any future action taken with this charter.