# Choice Education and Development Corporation

## Charter Holder's Financial Sustainability
## Part B

Choice Education and Development Corporation the charter holder ended the fiscal years June 30, 2011 with positive net assets of $654,742. The corporation had negative net assets in prior years but the growth of the schools and the stability provided by the bond which it participated has allowed it to grow out of that situation. The Budgets under which the corporation is operating under during the current year provide for an increase in net assets.

Choice Education and Development Corporation's and Edkey Inc's Board of Directors On March 9, 2012 approved a merger of Choice Education and Development Corporation and Edkey, Inc. effective June 30, 2012. The Merger is subject to the approval of various parties and we ill require the transfer of the charters held by Edkey, Inc. to Choice Education and Development Corporation. Choice Education and Development Corporation will be assuming all the assets and debt obligations of Edkey, Inc. upon completion of the merger. Both companies have positive net assets as of June 30, 2011 with combine net assets of $667,074 and are operating under budgets that will provide for an increase in net assets in the fiscal year ended June 30, 2012.

We are attaching

- Audit financial statement for both Choice Education and Development Corporation and Edkey, Inc. as of June 30, 2011.
- Merger Documents of Choice Education and Development Corporation and Edkey, Inc. including proforma financial statements for the three fiscal years ended June 30, 2009, 2010 and 2011.
- Memorandum explain the merger

MEMO:

RE: Choice Education and Development Corporation and Edkey, Inc. Merger

Date: February 13, 2012

FROM: Patric R Greer

Choice Education and Development Corporation (CEDC) and Edkey, Inc. are proposing a merger of the two companies effective June 30, 2012.

FACTS:

Presently the two corporations are operating independently with all of the managements for both corporations being provided by CEDC. Each Corporation is a 501(c) 3. The officers and Directors of the two companies are identical.

CEDC operates nine charter schools under five charters with the Arizona State Board for Charter Schools. The Charters are Sequoia Charter School, Arizona Conservatory for the Arts and Academics, Sequoia Village School, Learning Crossroads Basic Academy and Sequoia School for the Deaf and Hard of Hearing.

The following is a list of the Charters and Schools operated by CEDC:

| Charter | School |
|---|---|
| **Sequoia Charter School** | |
| | Sequoia Secondary School |
| | Sequoia Middle School |
| | Sequoia Elementary School |
| **SSDHH** | |
| | Sequoia School for the Deaf & Hard of Hearing |
| **LCBA** | |
| | Sequoia Academics and Arts Elementary Charter School K-8 |
| | Sequoia Academics and Arts Charter School 9-12 |
| **Sequoia Village School** | |
| | Sequoia Village School |
| **ACAA** | |
| | AZ Conservatory for Arts and Academics |
| | AZ Conservatory for Arts and Academics--Middle School |

Edkey Inc operates six Charter school under three charters from the Arizona State Board for Charter School. The charters are Sequoia Ranch Schools, Pathfinder Academy and Redwood Academy.

The following is a list of the Charters and schools operated by Edkey, Inc:

| Charter | School |
|---|---|
| **Sequoia Ranch School** | |
| | Sequoia Ranch School |
| | Children First Academy - Phoenix |
| | Children First Academy - Tempe |
| | Sequoia Pathway Academy |
| **Pathfinder Academy** | |
| | Pathfinder Academy |
| **Redwood Academy** | |
| | Sequoia Redwood Academy |

CEDC provides management services to both corporations including Accounting, Payroll, Human resources, transportation, food services, Technology and Facilities. Edkey is charged for these services based upon usage. The two corporations while separate entities are depended upon each other for services. The arraignment between the two companies is somewhat complicated shared management and cost structure that has caused us all some confusion when trying to underwrite bond deals.

CEDC participated in a bonding financing of $28,500,000 in 2006 to acquire the following properties: 1460 S Horne Mesa, AZ, 2820 W Kelton Lane Phoenix, AZ and 982 Fullhouse Lane Show Low, AZ with all of the property and assets of those sites. Additionally the proceeds of the bond where used to construct two buildings on the Horne campus with 39,000 sqft in space. The pledged revenues for this bond are the revenues of Sequoia Charter School, Sequoia Village School, Sequoia School for the Deaf and Hard of Hearing and Arizona Conservatory for the Arts and Academics. The state apportionment for r these schools are deposited with the bond trustee and payments are made pursuant to the bond and the balance is forwarded to the schools. The Balance due on the Bond as of January 1 2012 was $26,770,000.

Edkey Inc. participated in a bond financing of $13,450,000 in 2010 to acquire a property at 19625 N Porter Rd Maricopa AZ and to build the facility at that site and furnish the facility. The pledged revenues for this bond are those of the Sequoia Ranch Charter. The state apportionments for these schools are deposited with the bond trustee and payments are made pursuant to the bond and the balance is forwarded to the schools. The Balance due on the Bond as of January 1 2012 was $13,450,000.

MERGER

The objective is to streamline all management and administration into one enterprise and create a much larger and fiscally stronger organization by consolidating operations. Upon completion of the merger, the bondholders for each respective transaction will enjoy a much stronger credit and the newly merged company will enjoy a significantly enhanced financial position. With the merger the management and administration being in one company will allow the merged company to save accounting and payroll cost as there will not be the requirement to distinguish between the companies.

The following are the financial statements (Statements of net Assets and Changes in Net Assets) for the two companies separately and in a merged format for the years ended June 20, 2009, 2010, 2011 and December 31, 2011. The 2009 and 2010 statements are taken from each company's audited financial statements, while those of June 30, 2011 and December 31, 2011 are unaudited at this point in time. The audited statements with footnotes and auditors reports are attached for reference. The June 30, 2012 audit for both companies should be completed in the near future.

Additionally we are attaching the Debt service Coverage Ratio or each of the two bonds from June 30, 2009 forward individually and combined starting with June 30, 2011. We have made projections for the June 30, 2012 based upon the budgets for the 2012 fiscal year,

# PLAN OF MERGER
# MERGING EDKEY, INC. WITH AND INTO
# CHOICE EDUCATION AND DEVELOPMENT CORPORATION

This Plan of Merger has been prepared in accordance with Section 10-1110 of the Arizona Nonprofit Corporation Act.

1. Surviving Corporation. Edkey, Inc., an Arizona nonprofit corporation, shall be merged (the "*Merger*") with and into Choice Education and Development Corporation, an Arizona nonprofit corporation. Choice shall be the corporation surviving the Merger (the "*Surviving Corporation*").

2. Effective Time. The Merger shall be effective as of 11:59 p.m. on June 30, 2012 (the "*Effective Time*").

3. Rights and Obligations. As of the Effective Time, the Surviving Corporation, by operation of the Merger, and with no further action required, shall possess and be subject to all the rights, privileges, powers, franchises, property (real, personal and mixed), restrictions, disabilities, duties and debts of Edkey, Inc. and the Surviving Corporation.

Without limitation, as of the Effective Time, the Surviving Corporation shall, and hereby agrees to, be bound by and assume and perform all of the terms, covenants, conditions, agreements and obligations of both Edkey, Inc., and Choice Education and Development Corporation under and pursuant to the following Loan Agreements and all documents entered into in connection therewith: (a) Loan Agreement by and between The Industrial Development Authority of the County of Pima, as issuer, and Edkey, Inc. as Borrower, dated as of November 1, 2010, and (b) Loan Agreement by and between The Industrial Development Authority of the County of Pima, as issuer, and Choice Education and Development Corporation, as Borrower, dated as of June 1, 2006.

Furthermore, without limitation, as of the Effective Time, the Surviving Corporation shall, and hereby agrees to, be bound by and assume and perform all of the terms, covenants, conditions, agreements and obligations of both Edkey, Inc., and Choice Education and Development Corporation under and pursuant to the following Charters granted by the Arizona State Board of Charter Schools: (a) Sequoia Charter School; (b) Arizona Conservatory for the Arts and Academics; (c) Sequoia Village School; (d) Learning Crossroads Basic Academy; (e) Sequoia School for the Deaf and Hard of Hearing; (f) Sequoia Ranch Schools; (g) Pathfinder Academy; and (h) Redwood Academy.

4. Officers. The officers of the Surviving Corporation immediately prior to the Effective Time shall be the officers of the Surviving Corporation as of and after the Effective Time, and each of them shall hold office until their respective successors are elected and qualified, or until their earlier resignation or removal.

5. Directors. The directors of the Surviving Corporation immediately prior to the Effective Time shall be the directors of the Surviving Corporation as of and after the Effective Time, and each of them shall hold office until their respective successors are elected and qualified, or until their earlier resignation or removal.

6. Bylaws. The Bylaws of the Surviving Corporation that are in effect immediately prior to the Effective Time shall be the Bylaws of the Surviving Corporation as of and after the Effective Time, except the Bylaws shall be amended to the extent necessary to amend the name of the Surviving Corporation to Edkey, Inc.

7. Articles of Incorporation. The Articles of Incorporation of the Surviving Corporation that are in effect immediately prior to the Effective Time shall be the Articles of Incorporation of the Surviving Corporation as of and after the Effective Time, except that Article I of the Articles of Incorporation shall be amended in its entirety to read as follows:

"Article 1: Name. The name of the Corporation is Edkey, Inc."

8. Adoption. This Plan of Merger was adopted and approved by the Board of Directors of Edkey, Inc. at a meeting duly called and properly held on March 9, 2012, and by the Board of Directors of the Surviving Corporation at a meeting duly called and properly held on March 9, 2012.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this 12 day of March, 2012.

EDKEY, INC.

By:
Name: Patric R. Greer
Title: Secretary/TREASURER

CHOICE EDUCATION AND DEVELOPMENT CORPORATION

By:
Name: Ron Neil
Title: President

Choice Education and Development and Edkey Inc Merged Corporations
Statement Of Financial Postion
June 30, 2009

| | CEDC | Edkey | Elimination | Merged Corporation |
|---|---|---|---|---|
| | **Assets** | | | |
| **Current Assets** | | | | |
| Cash | 762,555 | 240,584 | | 1,003,139 |
| Grants and Funds Receivable | 481,701 | 144,785 | | 626,486 |
| Account Receivable | 265,568 | 284,262 | | 549,830 |
| Due from Related Party | 494,394 | 0 | (494,394) | 0 |
| Current Bond Reserves | 373,728 | | | 373,728 |
| **Total Current Assets** | 2,377,946 | 669,631 | (494,394) | 2,553,183 |
| **Property and Equipment, Net** | 21,535,126 | 796,824 | | 22,331,950 |
| **Other Assets** | | | | |
| Bond Reserve | 2,133,219 | 0 | | 2,133,219 |
| Bond Fees, Net | 1,676,150 | 0 | | 1,676,150 |
| Deposits | 33,925 | 43,407 | | 77,332 |
| Goodwill | 534,500 | 0 | | 534,500 |
| **Total Other Assets** | 4,377,794 | 43,407 | 0 | 4,421,201 |
| **Total Assets** | 28,290,866 | 1,509,862 | (494,394) | 29,306,334 |
| | **Liabilities and Net Assets** | | | |
| **Current Liabilities** | | | | |
| Accounts Payable | 225,137 | 256,787 | | 481,924 |
| Accrued Payroll and Other Assets | 917,434 | 361,692 | | 1,279,126 |
| Current Portion of Bond Payable | 385,000 | | | 385,000 |
| Unearned Revenues | 42,667 | 0 | | 42,667 |
| Line of Credit | 22,589 | | | |
| Due or Accrued to Related Party | | 494,394 | (494,394) | 0 |
| **Total Current Liabilities** | 1,592,827 | 1,112,873 | (494,394) | 2,188,717 |
| **Long Term Liabilities** | | | | |
| Bond Payable, Net of Current Portion | 27,180,000 | 0 | | 27,180,000 |
| **Total Liabilities** | 28,772,827 | 1,112,873 | (494,394) | 29,368,717 |
| **Net Assets** | | | | |
| Unrestricted (Deficit) | (1,081,077) | (28,438) | | (1,109,515) |
| Temporarily Restricted | 525,450 | 425,427 | | 950,877 |
| **Total Net Assets (deficit)** | (555,627) | 396,989 | 0 | (158,638) |
| **Total Net Assets and Net Assets** | 28,217,200 | 1,509,862 | (494,394) | 29,210,079 |

Choice Education and Development and Edkey Inc Merged Corportaions
Statement Of Activites and Changes in net Assets
June 30, 2009

| | CEDC | Edkey | Elimination | Merged Corporation |
|---|---|---|---|---|
| **Revenues** | | | | |
| State of Arizona Equalization | 10,866,536 | 4,301,041 | | 15,167,577 |
| Classroom Site Fund | 519,604 | 225,873 | | 745,477 |
| Instructional Improvement Fu | 60,654 | 26,920 | | 87,574 |
| Federal and State Grant Reven | 982,544 | 346,566 | | 1,329,110 |
| Management Fee - Related Pa | 978,596 | | (978,596) | 0 |
| Administrative Services | 796,344 | 2,836,712 | | 3,633,056 |
| Food Services | 60,882 | 294,446 | | 355,328 |
| Public Donations | 145,419 | 541,210 | | 686,629 |
| Other Revenues | 18,111 | 238,215 | | 256,326 |
| **Total Revenues** | 14,428,690 | 8,810,983 | (978,596) | 22,261,077 |
| **Personnel Services** | | | | |
| Salaries and Wages | 7,404,889 | 3,628,688 | | 11,033,577 |
| Payroll Taxes and Benefits | 1,899,983 | 988,647 | | 2,888,630 |
| **Total Personnel Services** | 9,304,872 | 4,617,335 | 0 | 13,922,207 |
| **Operating Expenses** | | | | |
| Advertising | 37,963 | 23,295 | | 61,258 |
| Amortization | 62,080 | | | 62,080 |
| Depreciation | 920,203 | 106,329 | | 1,026,532 |
| Equipment Repair and Rental | 288,003 | 318,882 | | 606,885 |
| Food Service | 349,783 | 328,448 | | 678,231 |
| Insurance | 141,592 | 85,552 | | 227,144 |
| Interest | 1,762,854 | 2,642 | | 1,765,496 |
| Miscellaneous | 56,239 | 40,559 | | 96,798 |
| Occupancy | 29,211 | 536,227 | (206,190) | 359,248 |
| Professional Fees | 525,686 | 1,254,572 | | 1,780,258 |
| Student Transportation | 293,254 | | | 293,254 |
| Supplies | 340,638 | 271,986 | | 612,624 |
| Travel | 45,400 | 113,062 | | 158,462 |
| Administrative Fee related Party | | 772,406 | (772,406) | 0 |
| Other | | 95,675 | | 95,675 |
| Utilities and Telephone | 451,036 | 217907 | | 668,943 |
| **Total Operating Expenses** | 5,303,942 | 4,167,542 | (978,596) | 8,492,888 |
| **Total Expenses** | 14,608,814 | 8,784,877 | (978,596) | 22,415,095 |
| **Increase in Net Assets** | (180,124) | 26,106 | 0 | (154,018) |
| **Net Assets (Deficit) at Beginni** | (375,503) | 370,883 | | (4,620) |
| **Net Assets (Deficit) at End of ** | (555,627) | 396,989 | 0 | (158,638) |

Choice Education and Development and Edkey Inc Merged Corporations
Statement Of Financial Postion
June 30, 2010

| | CEDC | Edkey | Elimination | Merged Corporation |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash | 828,089 | 501,703 | | 1,329,792 |
| Grants and Funds Receivable | 165,396 | 100,314 | | 265,710 |
| Account Receivable | 10,562 | 126,238 | | 136,800 |
| Due from Related Party | 96,341 | | (96,341) | 0 |
| Prepaid Expense | 1,001,054 | 58,074 | (956,519) | 102,609 |
| Current Bond Reserves | 1,155,323 | | | 1,155,323 |
| **Total Current Assets** | 3,256,765 | 786,329 | (1,052,860) | 2,990,234 |
| **Property and Equipment, Net** | 20,942,437 | 1,085,522 | | 22,027,959 |
| **Other Assets** | | | | |
| Bond Reserve | 2,133,219 | 0 | | 2,133,219 |
| Bond Fees, Net | 1,614,069 | 0 | | 1,614,069 |
| Deposits | 0 | 34,038 | | 34,038 |
| Goodwill | 534,500 | 0 | | 534,500 |
| **Total Other Assets** | 4,281,788 | 34,038 | 0 | 4,315,826 |
| **Total Assets** | 28,480,990 | 1,905,889 | (1,052,860) | 29,334,019 |
| **Liabilities and Net Assets** | | | | |
| **Current Liabilities** | | | | |
| Accounts Payable | 629,022 | 612,804 | | 1,241,826 |
| Accrued Payroll and Other Assets | 803,026 | 202,487 | | 1,005,513 |
| Current Portion of Bond Payable | 410,000 | | | 410,000 |
| Unearned Revenues | 42,667 | 0 | | 42,667 |
| Due or Accrued to Related Party | | 1,052,860 | (1,052,860) | 0 |
| **Total Current Liabilities** | 1,884,715 | 1,868,151 | (1,052,860) | 2,700,006 |
| **Long Term Liabilities** | | | | |
| Bond Payable, Net of Current Portion | 26,770,000 | | | 26,770,000 |
| **Total Liabilities** | 28,654,715 | 1,868,151 | (1,052,860) | 29,470,006 |
| **Net Assets** | | | | |
| Unrestricted (Deficit) | (707,837) | (149,497) | | (857,334) |
| Temporarily Restricted | 534,112 | 187,235 | | 721,347 |
| **Total Net Assets (deficit)** | (173,725) | 37,738 | 0 | (135,987) |
| **Total Net Assets and Net Assets** | 28,480,990 | 1,905,889 | (1,052,860) | 29,334,019 |

Choice Education and Development and Edkey Inc Merged Corporations
Statement Of Activites and Changes in net Assets
June 30, 2010

| | CEDC | Edkey | Elimination | Merged Corporation |
|---|---|---|---|---|
| **Revenues** | | | | |
| State of Arizona Equalization | 8,985,229 | 5,538,570 | | 14,523,799 |
| Classroom Site Fund | 440,989 | 286,983 | | 727,972 |
| Instructional Improvement Fund | 54,781 | 42,075 | | 96,856 |
| Federal and State Grant Revenues | 3,831,950 | 2,416,250 | | 6,248,200 |
| Management Fee - Related Party | 708,467 | 0 | (708,467) | 0 |
| Administrative Services | 933,436 | 710,330 | | 1,643,766 |
| Food Services | 935 | 7,603 | | 8,538 |
| Public Donations | 60,100 | 372,601 | | 432,701 |
| Other Revenues | 290,078 | 64,361 | | 354,439 |
| **Total Revenues** | 15,305,965 | 9,438,773 | (708,467) | 24,036,271 |
| **Personnel Services** | | | | |
| Salaries and Wages | 7,121,760 | 4,034,687 | | 11,156,447 |
| Payroll Taxes and Benefits | 1,994,221 | 1,198,229 | | 3,192,450 |
| **Total Personnel Services** | 9,115,981 | 5,232,916 | 0 | 14,348,897 |
| **Operating Expenses** | | | | |
| Advertising | 22,187 | 22,924 | | 45,111 |
| Amortization | 62,080 | | | 62,080 |
| Depreciation | 1,097,884 | 155,752 | | 1,253,636 |
| Equipment Repair and Rental | 338,361 | 224,914 | | 563,275 |
| Food Service | 366,761 | 422,814 | | 789,575 |
| Insurance | 149,695 | 69,178 | | 218,873 |
| Interest | 1,735,363 | 3,092 | | 1,738,455 |
| Miscellaneous | 61,872 | 20,028 | | 81,900 |
| Occupancy | 81,393 | 1,321,349 | | 1,402,742 |
| Professional Fees | 773,678 | 1,147,092 | (206,190) | 1,714,580 |
| Student Transportation | 287,964 | | | 287,964 |
| Supplies | 355,171 | 293,010 | | 648,181 |
| Travel | 65,481 | 108,398 | | 173,879 |
| Administrative Fee related Party | | 502,277 | (502,277) | 0 |
| Utilities and Telephone | 410,192 | 274,280 | | 684,472 |
| **Total Operating Expenses** | 5,808,082 | 4,565,108 | (708,467) | 9,664,723 |
| **Total Expenses** | 14,924,063 | 9,798,024 | (708,467) | 24,013,620 |
| **Increase in Net Assets** | 381,902 | (359,251) | 0 | 22,651 |
| **Net Assets (Deficit) at Beginning of Year** | (555,627) | 396,989 | | (158,638) |
| **Net Assets (Deficit) at End of Year** | (173,725) | 37,738 | 0 | (135,987) |

Choice Education and Development and Edkey Inc Merged Corporations
Statement Of Financial Postion
June 30, 2011

| | CEDC | Edkey | Elimination | Merged Corporation |
|---|---|---|---|---|
| | **Assets** | | | |
| **Current Assets** | | | | |
| Cash | 999,129 | 1,253,551 | | 2,252,680 |
| Grants and Funds Receivable | 299,106 | 146,965 | | 446,071 |
| Account Receivable | 576,262 | | (509,884) | 66,378 |
| Prepaid Expense | 993,268 | 41,443 | (960,223) | 74,488 |
| Current Bond Reserves | 1,278,999 | 695,370 | | 1,974,369 |
| **Total Current Assets** | 4,146,764 | 2,137,329 | (1,470,107) | 4,813,986 |
| **Property and Equipment, Net** | 20,457,987 | 10,741,627 | | 31,199,614 |
| **Other Assets** | | | | |
| Bond Reserve | 2,133,219 | 1,932,356 | | 4,065,575 |
| Bond Fees, Net | 1,551,990 | 1,158,273 | | 2,710,263 |
| Deposits | 0 | | | 0 |
| Goodwill | 534,500 | 0 | | 534,500 |
| **Total Other Assets** | 4,219,709 | 3,090,629 | 0 | 7,310,338 |
| **Total Assets** | 28,824,460 | 15,969,585 | (1,470,107) | 43,323,938 |
| | **Liabilities and Net Assets** | | | |
| **Current Liabilities** | | | | |
| Accounts Payable | 745,232 | 468,641 | | 1,213,873 |
| Accrued Payroll and Other Assets | 640,163 | 456,587 | | 1,096,750 |
| Current Portion of Bond Payable | 435,000 | | | 435,000 |
| Unearned Revenues | 14,323 | 114,842 | | 129,165 |
| Due or Accrued to Related Party | | 1,467,183 | (1,470,107) | (2,924) |
| **Total Current Liabilities** | 1,834,718 | 2,507,253 | (1,470,107) | 2,871,864 |
| **Long Term Liabilities** | | | | |
| Bond Payable, Net of Current Portion | 26,335,000 | 13,450,000 | | 39,785,000 |
| **Total Liabilities** | 28,169,718 | 15,957,253 | (1,470,107) | 42,656,864 |
| **Net Assets** | | | | |
| Unrestricted (Deficit) | 262,852 | (179,972) | | 82,880 |
| Temporarily Restricted | 391,890 | 192,304 | | 584,194 |
| **Total Net Assets (deficit)** | 654,742 | 12,332 | 0 | 667,074 |
| **Total Net Assets and Net Assets** | 28,824,460 | 15,969,585 | (1,470,107) | 43,323,938 |

UNAUDITED

Choice Education and Development and Edkey Inc Merged Corportaions
Statement Of Activites and Changes in net Assets
June 30, 2011

| | CEDC | Edkey | Elimination | Merged Corporation |
|---|---|---|---|---|
| **Revenues** | | | | |
| State of Arizona Equalization | 11,964,106 | 6,818,259 | | 18,782,365 |
| Classroom Site Fund | 450,415 | 294,786 | | 745,201 |
| Instructional Improvement Fund | 62,288 | 45,479 | | 107,767 |
| Federal and State Grant Revenues | 1,820,798 | 987,968 | | 2,808,766 |
| Management Fee - Related Party | 1,037,734 | 0 | (1,037,734) | (0) |
| Administrative Services and Facilities | 933,436 | 641,190 | (505,129) | 1,069,497 |
| Food Services | 487,822 | 398,974 | | 886,796 |
| Public Donations | | 730,585 | | 730,585 |
| Other Revenues | 196,263 | 261,113 | | 457,376 |
| **Total Revenues** | 16,952,862 | 10,178,354 | (1,542,863) | 25,588,353 |
| **Personnel Services** | | | | |
| Salaries and Wages | 7,532,890 | 4,095,040 | | 11,627,930 |
| Payroll Taxes and Benefits | 2,436,050 | 1,129,045 | | 3,565,095 |
| **Total Personnel Services** | 9,968,940 | 5,224,085 | 0 | 15,193,025 |
| **Operating Expenses** | | | | |
| Advertising | 10,792 | 10,595 | | 21,387 |
| Amortization | 62,080 | 26,324 | | 88,404 |
| Depreciation | 999,933 | 390,522 | | 1,390,455 |
| Equipment Repair and Rental | 215,913 | 156,858 | | 372,771 |
| Food Service | 438,040 | 395,143 | | 833,183 |
| Insurance | 53,960 | 73,286 | | 127,246 |
| Interest | 1,712,263 | 0 | | 1,712,263 |
| Miscellaneous | 72,126 | 4,865 | | 76,991 |
| Occupancy | 1,310 | 989,659 | | 990,969 |
| Professional Fees | 559,264 | 482,449 | | 1,041,713 |
| Student Transportation | 996,507 | 195,413 | | 1,191,920 |
| Supplies | 453,546 | 327,126 | | 780,672 |
| Travel | 66,763 | 41,451 | | 108,214 |
| Administrative Fee related Party | | 1,542,863 | (1,542,863) | 0 |
| Other | | 61,994 | | 61,994 |
| Utilities and Telephone | 509,958 | 281,127 | | 791,085 |
| **Total Operating Expenses** | 6,152,455 | 4,979,675 | (1,542,863) | 9,589,266 |
| **Total Expenses** | 16,121,395 | 10,203,760 | (1,542,863) | 24,782,291 |
| **Increase in Net Assets** | 831,467 | (25,406) | 0 | 806,061 |
| **Net Assets (Deficit) at Beginning of Year** | (173,725) | 37,738 | | (135,987) |
| **Net Assets (Deficit) at End of Year** | 657,742 | 12,332 | 0 | 670,074 |

UNAUDITED

Choice Education and Development Corporation and Edkey Inc.
Merged Statement of Net Assets
December 31, 2011

| | Choice Education and Development Corporation | Edkey, Inc. | Eliminations | Merged Company |
|---|---|---|---|---|
| Assets | | | | |
| Current Assets | | | | |
| Cash and Equivalents | 999,115 | 108,606 | | 1,107,721 |
| Accounts Receivable | 879,640 | 983,635 | -601,953 | 1,261,322 |
| Current Bond Reserves | 1,278,999 | 694,973 | | 1,973,972 |
| Total Current Assets | 3,157,754 | 1,787,214 | -601,953 | 4,343,015 |
| Property Plant & Equipment | | | | |
| Property and Equipment | 20,333,828 | 12,505,542 | | 32,839,370 |
| Total Property Plant & Equip | 20,333,828 | 12,505,542 | 0 | 32,839,370 |
| Other Assets | | | | |
| Prepaid Expenses | 993,268 | 65,330 | -975,452 | 83,145 |
| Bond Fees, Net | 1,676,150 | 1,127,985 | | 2,804,135 |
| Bond Reserves | 2,133,219 | 1,184,597 | | 3,317,816 |
| Goodwill | 534,500 | | | 534,500 |
| Total Other Assets | 5,337,136 | 2,377,912 | -975,452 | 6,739,596 |
| Total Assets | 28,828,718 | 16,670,667 | -1,577,405 | 43,921,980 |
| Liabilities | | | | |
| Current Liablities | | | | |
| Accounts Payable | 564,000 | 594,020 | -487,187 | 670,834 |
| Payroll Liabilities | 640,168 | 466,174 | | 1,106,343 |
| Other Accrued Expenses | 321,396 | 1,181,096 | -1,090,218 | 412,274 |
| Note Payable | | 100,000 | | 100,000 |
| Current Portion Bonds Payable | 435,000 | | | 435,000 |
| Total Current Liablities | 1,960,565 | 2,341,291 | -1,577,405 | 2,289,451 |
| Long Term | | | | |
| Mortgage Payable - CFA Phoenix | | 834,750 | | 834,750 |
| Bonds Payable, Less Current Portion | 26,335,000 | 13,450,000 | | 39,785,000 |
| Total Long Term | 26,335,000 | 14,284,750 | 0 | 40,619,750 |
| Total Liabilities | 28,295,565 | 16,626,041 | 0 | 40,619,750 |
| Net Assets | | | | |
| Unrestricted | 676,112 | 50,755 | | 726,868 |
| Restricted | -142,959 | -6,129 | | -149,089 |
| Total | 533,153 | 44,626 | 0 | 577,779 |
| Total Liablities and Net Assets | 28,828,718 | 16,670,667 | 0 | 41,197,529 |

Unaudited Balance Sheet

Choice Education and Development Corporation and Edkey, Inc.
Merged Statement of Changes in Net Assets
Six Months Ended December 31, 2011

| | Choice Education and Development Corporation | Edkey, Inc. | Eliminations | Merged Company |
|---|---|---|---|---|
| Revenue | | | | |
| State Equalization Funds | 6,347,363 | 4,239,246 | | 10,586,609 |
| Classroom Site Funds | 213,639 | 153,936 | | 367,575 |
| Instructional Improvement | | 2,974 | | 2,974 |
| Lunch | 237,055 | 284,652 | | 521,707 |
| Extraciricular activity donations | 9,625 | 38,675 | | 48,300 |
| Grants | 611,783 | 267,073 | | 878,855 |
| Donations | 23,999 | 265,701 | | 289,700 |
| Revenue from Other Sources | 890,070 | 318,140 | -775,566 | 432,644 |
| Total Revenue | 8,333,534 | 5,570,397 | -775,566 | 13,128,365 |
| Expenses | | | | |
| Employee Compensation | 3,949,411 | 2,164,658 | | 6,114,068 |
| Employee Benefits and Taxes | 1,066,411 | 593,685 | | 1,660,096 |
| Purchased Professional Services | 311,645 | 904,056 | -775,566 | 440,135 |
| Purchased Property Services | 179,241 | 430,621 | | 609,862 |
| Other Purchased Services | 325,953 | 116,005 | | 441,959 |
| Supplies | 715,807 | 614,376 | | 1,330,183 |
| Property Expenses | 92,356 | 36,845 | | 129,202 |
| Depreciation and Amortization | 477,282 | 229,476 | | 706,758 |
| Interest Expense | 860,035 | 477,344 | | 1,337,379 |
| Othr Misc Expenses | 35,718 | 18,081 | | 53,799 |
| Total Expenses | 8,013,859 | 5,585,148 | -775,566 | 12,823,441 |
| **NET SURPLUS/(DEFICIT)** | **319,675** | **-14,751** | **0** | **304,924** |

Unaudit Income Statements.

**Choice Education and Development Corporation**
**Mesa, Arizona**

**Report**

**June 30, 2011**

**Choice Education and Development Corporation**
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June 30, 2011


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KLECKA, WILKINS & KLECKA
• CERTIFIED PUBLIC ACCOUNTANTS •

Daniel E. Klecka, CPA
Harry F. Wilkins III, CPA
Michael J. Klecka, CPA

635 East Maryland Avenue
Phoenix, Arizona 85012

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Choice Education and Development Corporation
Mesa, Arizona

We have audited the accompanying statement of financial position of Choice Education and Development Corporation (an Arizona non-profit corporation) (the School) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Choice Education and Development Corporation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, on our consideration of Choice Education and Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of functional expenses on page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards on pages 13-15 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular A-133,* Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Klecka, Wilkins & Klecka

Phoenix, Arizona
February 27, 2012

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**Choice Education and Development Corporation**

Statement of Financial Position

June 30, 2011

## ASSETS

| | | |
|---|---|---|
| **Current Assets** | | |
| Cash and Cash Equivalents | $ | 999,129 |
| Grants and Funds Receivable, Net of $0 Allowance for Doubtful Accounts | | 299,106 |
| Accounts Receivable, Net of $0 Allowance for Doubtful Accounts | | 576,262 |
| Prepaid Expenses | | 993,268 |
| Bond Reserves | | 1,278,999 |
| **Total Current Assets** | | 4,146,764 |
| **Property and Equipment, Net** | | 20,457,987 |
| **Other Assets** | | |
| Bond Reserves | | 2,133,219 |
| Bond Fees, Net of Amortization | | 1,551,990 |
| Goodwill | | 534,500 |
| **Total Other Assets** | | 4,219,709 |
| **TOTAL ASSETS** | $ | 28,824,460 |

## LIABILITIES AND NET ASSETS

| | | |
|---|---|---|
| **Current Liabilities** | | |
| Accounts Payable | $ | 745,232 |
| Accrued Payroll and Other Expenses | | 640,163 |
| Current Portion of Bond Payable | | 435,000 |
| Unearned Revenue | | 14,323 |
| **Total Current Liabilities** | | 1,834,718 |
| **Long-Term Liabilities** | | |
| Bond Payable, Net of Current Portion | | 26,335,000 |
| **Total Liabilities** | | 28,169,718 |
| **Net Assets** | | |
| Unrestricted | | 262,852 |
| Temporarily Restricted | | 391,890 |
| **Total Net Assets** | | 654,742 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ | 28,824,460 |

See Accompanying Notes and Auditor's Report

**Choice Education and Development Corporation**

Statement of Activities

Year Ended June 30, 2011

| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Total Net Assets |
|---|---|---|---|
| **Revenues** | | | |
| State Equalization Funds | $ 11,964,106 | $ - | $ 11,964,106 |
| Classroom Site Fund | - | 450,415 | 450,415 |
| Instructional Improvement Fund | 62,288 | - | 62,288 |
| Federal Grants | 1,807,385 | - | 1,807,385 |
| State Grant Revenues | 13,413 | - | 13,413 |
| Management Fees | 1,037,734 | - | 1,037,734 |
| Administrative and Facilities | 933,436 | - | 933,436 |
| Interest Income | 938 | - | 938 |
| Food Service | 487,822 | - | 487,822 |
| Other Income | 195,325 | - | 195,325 |
| Net Assets Released From Restrictions | 592,637 | (592,637) | - |
| **Total Revenues** | 17,095,084 | (142,222) | 16,952,862 |
| **Expenses** | | | |
| Program Expenses | 11,334,769 | - | 11,334,769 |
| General and Administrative | 4,789,626 | - | 4,789,626 |
| **Total Expenses** | 16,124,395 | - | 16,124,395 |
| **Change in Net Assets** | 970,689 | (142,222) | 828,467 |
| **Net Assets (Deficit) at Beginning of Year** | (707,837) | 534,112 | (173,725) |
| **Net Assets at End of Year** | $ 262,852 | $ 391,890 | $ 654,742 |

See Accompanying Notes and Auditor's Report

**Choice Education and Development Corporation**

Statement of Cash Flows

Year Ended June 30, 2011

| | |
|---|---|
| **Cash Flows Provided (Used) by Operating Activities:** | |
| Increase in Net Assets | $ 828,467 |
| Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities: | |
| Depreciation | 999,933 |
| Amortization | 62,080 |
| Loss on Disposal of Property and Equipment | 154 |
| Changes in Assets and Liabilities: | |
| Grants and Funds Receivable | (133,710) |
| Accounts Receivable | (471,306) |
| Bond Assets | (123,676) |
| Prepaid Expenses | 9,733 |
| Accounts Payable | 168,586 |
| Other Accrued Expenses | (52,377) |
| Unearned Revenues | (28,344) |
| Accrued Payroll and Related | (162,863) |
| **Net Cash Provided by Operating Activities** | 1,096,677 |
| **Cash Flows Provided (Used) by Investing Activities:** | |
| Disposal of Property and Equipment | 1,442 |
| Purchase of Property and Equipment | (517,079) |
| **Net Cash Used by Investing Activities** | (515,637) |
| **Cash Flows Used by Financing Activities:** | |
| Payments on Bond Payable | (410,000) |
| **Net Increase in Cash and Cash Equivalents** | 171,040 |
| **Cash and Cash Equivalents at June 30, 2010** | 828,089 |
| **Cash and Cash Equivalents at June 30, 2011** | $ 999,129 |
| ***Supplemental Information:*** | |
| Cash Paid for Interest | $ 1,712,263 |
| Cash Paid for Income Taxes | $ - |

See Accompanying Notes and Auditor's Report

## *NOTE 1 – NATURE OF OPERATIONS:*

Choice Education and Development Corporation (the School) is an Arizona non-profit corporation organized in Delaware in June 2002. In July 2011 the corporation changed its domicile to Arizona. The Company maintains administrative offices in Mesa, Arizona, and holds five contractual agreements (charters) which permit it to operate under the provisions of its agreements with the Arizona State Board for Charter Schools (ASBCS). The terms of the charters are subject to renewal from 2013 through 2015 and may be renewed for successive twenty year time periods if the ASBCS deems that the Company is in compliance with its charter and statutory provisions. The School operates several charter schools in Arizona, including Phoenix, Show Low, and its flagship campus in Mesa, and serves approximately 1,800 students.

## *NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:*

### Basis of Presentation

The financial statements use the accrual method of accounting and the presentation follows the recommendations for the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) in FASB ASC 958. Under FASB ASC 958, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The School has evaluated subsequent events through February 27, 2012, which is prior to the date that the financial statements were available to be issued.

### Revenue Recognition

The School recognizes revenue as earned calculated using a "base support level" determined by the Arizona Department of Education. The "base support level" is a calculation using student counts as a basis for allocating equalization funds to the School such that the School is funded at an amount approximating the amount which public schools in the same district receive on a per pupil basis. State equalization funds are allocated on a fiscal year that ends June 30 of each year and are paid to the School on a periodic basis throughout the school year.

### Cash Equivalents

For purposes of the statement of cash flows, the School considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

### Accounts, Grants and Funds Receivable

The School recognizes income from services performed for other schools and from funds provided by the state of Arizona in connection with its charter agreements. Due to the concentrated nature of the School's income sources and historical collectibility trends, the School does not provide an allowance for accounts, grants or funds receivable.

### Property and Equipment

Land, buildings and improvements with a cost of $3,000 or more and furniture and equipment with both a cost of $300 or more and an estimated life of one year or more are capitalized. Assets are stated at cost or fair market value at date of gift, if contributed. Depreciation of furniture and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets, ranging from three to five years. Depreciation of buildings and improvements is provided on a straight-line basis over the estimated useful life of the respective assets. Maintenance and repairs are charged to expense as incurred. The costs of additions and improvements are capitalized and depreciated over the remaining useful lives of the assets. The costs and accumulated depreciation of assets sold or retired are removed from the accounts and any gain or loss is recognized in the year of disposal.

### Contributions

The School follows FASB ASC 958 for contributions. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a donor restriction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restriction. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

### Donated Services

A substantial number of volunteers (primarily parents of attending students) have donated many hours of labor to the schools; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

### Advertising

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2011 was $10,792.

## *NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):*

**Use of Estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Functional Expenses**
Expenses are charged directly to program or general and administrative categories based on direct expenditures incurred. All expenditures not directly chargeable are allocated based on personnel activity.

**Income Taxes**
The School qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code whose revenue is derived primarily from state equalization funds for charter schools, grants and contributions. Consequently, the School is generally exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The School is not a private foundation. The School has adopted FASB ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For the year ended June 30, 2011, the School had no material uncertain tax positions to be accounted for in the financial statements under the rules, and had no interest or penalties assessed by income taxing authorities. Management believes that the School is no longer subject to income tax examinations for years prior to the year ended June 30, 2008.

**Net Assets**
Net assets at June 30, 2011 consisted entirely of unrestricted and temporarily restricted net assets. Temporarily restricted net assets consist of Arizona classroom site funds with purpose restrictions described in A.R.S. §15-977.

## *NOTE 3 – RESTRICTED CASH:*

The School receives monies from the State of Arizona Classroom Site Fund (CSF) that are restricted solely for statutorily approved uses at school sites. At June 30, 2011, the School had on hand restricted CSF cash of $352,998; $41,622 was available for teacher base salary increases and employment related expenses; $307,157 was available for teacher compensation increases based on performance and employment related expenses; and $4,219 was available for maintenance and operations, including class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums. The School had $38,892 of CSF monies receivable at June 30, 2011.

## *NOTE 4 – PROPERTY AND EQUIPMENT:*

Depreciation expense for the year ended June 30, 2011 totaled $999,933. Property and equipment consist of the following at June 30, 2011:

| | |
|---|---|
| Land | $ 4,465,000 |
| Construction in Progress | 2,252,321 |
| Buildings and Improvements | 16,081,749 |
| Furniture and Equipment | 2,531,856 |
| Total Property and Equipment | 25,330,926 |
| (Less) Accumulated Depreciation | (4,872,939) |
| Property and Equipment, Net | $ 20,457,987 |

## *NOTE 5 – GOODWILL:*

The School accounts for business combinations using the purchase method of accounting and accordingly, the assets and liabilities of the acquired entities are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. The School does not amortize the goodwill balance. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the School and the acquired assembled workforce, neither of which qualifies as an identifiable intangible asset. Identifiable intangible assets with finite lives are amortized over their useful lives. Goodwill is tested annually for impairment, or sooner when circumstances indicate an impairment may exist. There was no change in goodwill during the year ended June 30, 2011.

## *NOTE 6 – BOND RESERVES:*

Bond assets consist of the following accounts:

**Bond Fund**
The bond fund accumulates monthly principal and interest payments made by the School until principal is returned to bondholders once annually and interest is distributed to bondholders twice annually.

**Project Fund**
The project fund is held by the trustee until projects are completed in accordance with certain provisions in the bond agreement. The fund is created to make payments on capital projects such as land purchases and new campus facilities.

**Revenue Fund**
The revenue fund receives state equalization payments on behalf of the School. The majority of each payment is then disbursed to the School once the required amount is transferred to the bond fund, where the trustee makes semi-annual interest payments and annual sinking fund payments on bond obligations.

**Debt Service Reserve Fund**
The debt service reserve fund was set up by the bond trustee (US Bancorp, also known as "US Bank") to make payments on the bond when monies in the Bond Fund are insufficient to make the required semi-annual payments. Such payments are made by the trustee in order to continue to service the bond. The fund is not immediately available to the School. The opening balance was placed in the fund by the trustee, and any remaining balance will be repaid when the bond matures in June 2036.

**Operating Reserve Fund**
The operating reserve fund is funded to pay operating expenses at the request of the School when state payments are unavailable or when expenses exceed budgeted expenses. All amounts drawn from the operating reserve fund are segregated from monthly state payments by the trustee and returned to the fund ratably over a twelve month period. If the fund balance at any time is less than the greater of the original operating reserve requirement of $300,000 or 15% of the School's annual budgeted expenses, the School is restricted from various transfers of its property and equipment. If necessary, portions of the fund may be transferred to the bond fund for payment of principal, premium, and interest.

The following schedule summarizes total bond assets at June 30, 2011:

| | | |
|---|---|---|
| Current Bond Assets: | | |
| Bond Fund | $ | 354,391 |
| Tax and Insurance Fund | | 163,062 |
| Operating Reserve Fund | | 753,440 |
| Revenue Fund | | 8,106 |
| | | 1,278,999 |
| Long-Term Bond Assets: | | |
| Debt Service Reserve Fund | | 2,133,219 |
| Total Bond Reserve Assets | $ | 3,412,218 |

## *NOTE 7 – BOND PAYABLE:*

On June 13, 2006, the School finalized a loan agreement, dated June 1, 2006, with the Industrial Development Authority of Pima County ("Pima IDA"). Concurrent with the loan agreement, Pima IDA issued "Series 2006" revenue bonds to the public. The bonds mature June 1, 2036. US Bank maintains several cash and short-term investment accounts as the bond trustee. Under the terms of the loan agreement, the School is required to pledge substantially all its revenues toward payment of its debt obligations through the various accounts held in trust.

Remaining monies are then transferred monthly to operating accounts once certain debt provisions are met. The interest rate on the bond loan is 6% annually for the first ten years, 6.25% for the second ten years, and 6.375% for the final ten years. Principal payments are disbursed from the bond fund each June, and interest payments are disbursed each June and December until maturity. The loan is secured by the assets and continuing revenues of the School. In addition to making consistent payments toward interest and principal due, the School has agreed to comply with all charter school laws, maintain appropriate title and liability insurance, and submit to an annual financial statement audit. If the School were to default materially on its loan obligations, the loan would be immediately due and payable.

### *NOTE 7 – BOND PAYABLE (Continued):*

Principal payments on the bond are due annually to the bond fund as follows:

| Year Ending June 30: | |
|---|---|
| 2012 | $ 435,000 |
| 2013 | 460,000 |
| 2014 | 490,000 |
| 2015 | 520,000 |
| 2016 | 550,000 |
| Thereafter | 24,315,000 |
| Total Bond Principal Payments | $ 26,770,000 |

The School is required to maintain a minimum debt service coverage ratio of 1.15. The "Debt Service Coverage Ratio" is calculated as follows:

| | |
|---|---|
| Bond Debt, June 30, 2011 | $ 26,770,000 |
| Bond Debt Service | |
| Series 2006, Year Ended June 30, 2011 | $ 2,122,263 |
| Pledged Revenues: | |
| State Equalization | 11,964,106 |
| Other | 5,010,518 |
| Total | 16,974,624 |
| Expenses: | |
| Expenses, Less Debt Service | 14,002,132 |
| Bond Debt Service (Interest) | 2,122,263 |
| Total | 16,124,395 |
| Increase in Net Assets | 850,229 |
| Adjustment: Interest on Debt | 1,712,263 |
| Adjustment: Amortization | 62,080 |
| Adjustment: Depreciation | 999,933 |
| Operating Income | 3,624,505 |
| Divide by Total Debt Service | 2,122,263 |
| Debt Service Coverage Ratio | 1.71 |

### *NOTE 8 – BOND FEES:*

The School incurred legal and administrative fees upon issuance of the bond. These fees are recorded as School assets and amortized over a period of thirty years using the straight-line method in order to match the expenses to the period in which the benefit occurs. The School expects amortization expense of $62,080 for each fiscal year until fulfillment of the bond obligation in 2036. During the year ended June 30, 2011, the School recognized issuance fees of $62,080.

### *NOTE 9 – CONCENTRATIONS OF RISK:*

Financial instruments that potentially expose the School to concentrations of credit and market risk consist primarily of cash in checking accounts. At June 30, 2011, the Federal Deposit Insurance Corporation insured all cash. The School has not experienced any losses on its cash.

Of the School's revenue for the year ended June 30, 2011, approximately 70%, was derived from state equalization funds for charter schools. Collection from the state is reasonably assured, provided that the School complies with contract terms stipulated in its contracts with the Arizona State Board for Charter Schools. Changes in state funding levels for charter schools could have a significant impact on the School's ability to operate.

### *NOTE 10 – RETIREMENT PLAN:*

**Plan Description**

The School has chosen to participate in the Arizona State Retirement System (ASRS), a cost-sharing, multiple-employer defined benefit pension plan. All School employees are enrolled automatically in the plan. Benefits are determined actuarially as required by state statute and are approved by the ASRS board of trustees. ASRS benefits provide retirement and long-term disability benefits.

**Funding Policy**

The ASRS board of trustees establishes and may amend active plan members' and the School's contribution rate. Active plan members and the School were each required by participation in the plan to contribute at the approved rate of 9.85 percent (9.6 percent retirement and .25 percent long-term disability for the year ended June 30, 2011) of the members' annual covered payroll. The School's contribution to the System for the year ended June 30, 2011 was $751,336, which was equal to the required contribution for the year.

## *NOTE 11 – ACCOUNTING AND ADMINISTRATIVE AGREEMENTS:*

**Management Fee Revenues – Related Party**

During the year ended June 30, 2011, the School recognized revenues of $985,951 for services rendered to EdKey, Inc. and its subsidiary (collectively, "EdKey") under the terms of management and licensing agreements. The School contracts for services regularly on behalf of EdKey based on the terms of the agreements. Each of the board members of the School is a board member of EdKey. During the year ended June 30, 2011, the School received $593,176 from EdKey. At June 30, 2011, EdKey owed the School $1,470,107 for services performed, which is included on the statement of financial position in prepaid expenses and accounts receivable.

**Administrative and Facilities Revenues**

The School contracts with Sequoia Choice Schools LLLP ("Sequoia Choice") on an informal basis for miscellaneous services and School facilities rental at various locations statewide. Sequoia Choice reimburses the School regularly for services rendered. During the year ended June 30, 2011, the School recognized facilities rental revenue and administrative revenue of $321,514 and $663,309, respectively, for services provided to Sequoia Choice. The School received payments of $985,272 from Sequoia Choice during the year. Sequoia Choice owed the School $56,409 for expenses accrued or payable to the School at June 30, 2011.

**Curriculum Expenses**

Sequoia Choice provides curriculum materials and services to the School. During the year, the School recognized expenses of $72,239 from Sequoia Choice for curriculum services. At June 30, 2011, the School owed Sequoia Choice $202,341.

**Choice Education and Development Corporation**
Supplementary Information
Statement of Functional Expenses
Year Ended June 30, 2011

| | Program Expenses | General and Administrative | Total |
|---|---|---|---|
| **Personnel Services** | | | |
| Salaries | $ 5,171,531 | $ 2,361,359 | $ 7,532,890 |
| Payroll Taxes and Benefits | 1,672,414 | 763,636 | 2,436,050 |
| **Total Personnel Services** | 6,843,945 | 3,124,995 | 9,968,940 |
| **Operating Expenses** | | | |
| Advertising | - | 10,792 | 10,792 |
| Amortization | 42,620 | 19,460 | 62,080 |
| Depreciation | 686,481 | 313,452 | 999,933 |
| Equipment Rental and Repair | 148,230 | 67,683 | 215,913 |
| Food Service | 438,040 | - | 438,040 |
| Insurance | 37,045 | 16,915 | 53,960 |
| Interest | 1,175,514 | 536,749 | 1,712,263 |
| Miscellaneous | 18,570 | 53,556 | 72,126 |
| Occupancy | 899 | 411 | 1,310 |
| Professional Fees | 317,766 | 241,498 | 559,264 |
| Student Transportation | 996,507 | - | 996,507 |
| Supplies | 250,859 | 202,687 | 453,546 |
| Travel | 28,193 | 41,570 | 69,763 |
| Utilities and Telephone | 350,100 | 159,858 | 509,958 |
| **Total Operating Expenses** | 4,490,824 | 1,664,631 | 6,155,455 |
| **TOTAL FUNCTIONAL EXPENSES** | $ 11,334,769 | $ 4,789,626 | $ 16,124,395 |

See Auditor's Report

KLECKA, WILKINS & KLECKA
• CERTIFIED PUBLIC ACCOUNTANTS •

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Choice Education and Development Corporation
Mesa, Arizona

We have audited the financial statements of Choice Education and Development Corporation (an Arizona nonprofit corporation) (the School) as of and for the year ended June 30, 2011, and have issued our report dated February 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended for the information and use of management, others within the School, federal and state awarding agencies, pass-through entities and the Arizona State Board for Charter Schools and is not intended to be and should not be used by anyone other than these specified parties.

Klecka, Wilkins & Klecka

Phoenix, Arizona
February 27, 2012

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**Choice Education and Development Corporation**
Supplementary Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

| Federal Grantor / Program Title / Recipient School | Federal CFDA Number | Federal Award Number or State Project Number | Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Education** | | | |
| Passed Through from Arizona Department of Education: | | | |
| **ARRA Education Jobs Fund** | | | |
| Sequoia Charter School | 84.410 | 11FAAEJB-160202-02A | $ 199,057 |
| Sequoia Village Charter School | 84.410 | 11FAAEJB-160300-03A | 41,412 |
| Sequoia School for the Deaf and Hard of Hearing | 84.410 | 11FAAEJB-160454-02A | 64,593 |
| Learning Crossroads Basic Academy | 84.410 | 11FAAEJB-160298-03A | 69,354 |
| Arizona Conservatory for Arts and Academics | 84.410 | 11FAAEJB-160384-02A | 104,487 |
| | | | 478,903 |
| **ARRA Education Stabilization Fund** | | | |
| Sequoia Charter School | 84.394 | 11FAASFF-160202-01A | 51,595 |
| Sequoia Village Charter School | 84.394 | 11FAASFF-160300-01A | 12,026 |
| Sequoia School for the Deaf and Hard of Hearing | 84.394 | 11FAASFF-160454-01A | 14,395 |
| Learning Crossroads Basic Academy | 84.394 | 11FAASFF-160298-01A | 7,449 |
| Arizona Conservatory for Arts and Academics | 84.394 | 11FAASFF-160384-01A | 22,047 |
| | | | 107,512 |
| **Title II, Part A - Improving Teacher Quality** | | | |
| Learning Crossroads Basic Academy | 84.367A | 11FAATII-160298-04A | 3,847 |
| Sequoia Charter School | 84.367A | 11FAATII-160202-06A | 35,806 |
| Sequoia Village Charter School | 84.367A | 11FAATII-160300-04A | 1,798 |
| Arizona Conservatory for Arts and Academics | 84.367A | 11FAATII-160384-04A | 298 |
| | | | 41,749 |
| **Title III Consortium** | | | |
| Sequoia Charter School | 84.365A | 11FACENG-160202-04A | 12,342 |
| **21st Century Community Learning Centers** | | | |
| Sequoia Charter School | 84.287C | 11FSECY4-160202-03A | 151,282 |
| Sequoia Village Charter School | 84.287C | 11FSECY3-160300-02A | 85,538 |
| | | | 236,820 |
| ***Title I, Part A Cluster:*** | | | |
| **Title I, Part A - Grants to Local Educational Agencies (LEAs)** | | | |
| Sequoia Charter School | 84.010A | 11FAATTI-160202-06A | 282,607 |
| Arizona Conservatory for Arts and Academics | 84.010A | 11FAATTI-160384-04A | 34,217 |
| Learning Crossroads Basic Academy | 84.010A | 11FAATTI-160298-04A | 46,271 |
| Sequoia Village Charter School | 84.010A | 11FAATTI-160300-04A | 80,738 |
| | | | 443,833 |
| **ARRA Title I** | | | |
| Sequoia Charter School | 84.389A | 11FAAART-160202-05A | 61,662 |
| Sequoia Village Charter School | 84.389A | 11FAAART-160300-06A | 19,066 |
| Learning Crossroads Basic Academy | 84.389A | 11FAAART-160298-06A | 18,930 |
| Arizona Conservatory for Arts and Academics | 84.389A | 11FAAART-160384-09A | - |
| | | | 99,658 |
| ***Total Title I, Part A Cluster:*** | | | 543,491 |

See Accompanying Notes and Auditor's Report

**Choice Education and Development Corporation**
Supplementary Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

| Federal Grantor / Program Title / Recipient School | Federal CFDA Number | Federal Award Number or State Project Number | Federal Expenditures |
|---|---|---|---|
| ***Special Education Cluster (IDEA):*** | | | |
| **IDEA Basic Entitlement, Part B - Special Education Grants** | | | |
| Sequoia Charter School | 84.027A | 11FESCBG-160202-11A | $ 125,948 |
| Sequoia Village Charter School | 84.027A | 11FESCBG-160300-09A | 21,865 |
| Learning Crossroads Basic Academy | 84.027A | 11FESCBG-160298-10A | 28,288 |
| Sequoia School for the Deaf and Hard of Hearing | 84.027A | 11FESCBG-160454-03A | 11,235 |
| Arizona Conservatory for Arts and Academics | 84.027A | 11FESCBG-160384-08A | 26,600 |
| | | | 213,936 |
| **IDEA Monitoring System Grant** | | | |
| Arizona Conservatory for Arts and Academics | 84.027 | 11FESMSG-160384-03A | 276 |
| Learning Crossroads Basic Academy | 84.027 | 11FESMSG-160298-02A | 500 |
| | | | 776 |
| **ARRA IDEA** | | | |
| Sequoia Charter School | 84.391 | 11FESAIG-160202-12A | 100,485 |
| Sequoia Village Charter School | 84.391 | 11FESAIG-160300-10A | 26,051 |
| Sequoia School for the Deaf and Hard of Hearing | 84.391 | 11FESAIG-160454-04A | 11,421 |
| Learning Crossroads Basic Academy | 84.391 | 11FESAIG-160298-11A | 23,013 |
| Arizona Conservatory for Arts and Academics | 84.391 | 11FESAIG-160384-10A | 26,040 |
| | | | 187,010 |
| ***Total Special Education Cluster (IDEA):*** | | | 401,722 |
| ***Education Technology State Grants Cluster:*** | | | |
| **Title II, Part D - Enhancing Education thru Technology** | | | |
| Sequoia Village Charter School | 84.318X | 11FETETF-160300-07A | 366 |
| Sequoia Charter School | 84.318X | 11FETETF-160202-09A | 1,455 |
| Learning Crossroads Basic Academy | 84.318X | 11FETETF-160298-08A | 596 |
| Arizona Conservatory for Arts and Academics | 84.318X | 11FETETF-160384-07A | 241 |
| | | | 2,658 |
| **ARRA Enhancing Education thru Technology Title II-D** | | | |
| Sequoia Charter School | 84.386 | 11FETEET-160202-10A | 1,480 |
| Sequoia Village Charter School | 84.386 | 11FETEET-160300-08A | 134 |
| Learning Crossroads Basic Academy | 84.386 | 11FETEET-160298-09A | 386 |
| Arizona Conservatory for Arts and Academics | 84.386 | 11FETEET-160384-06A | 261 |
| | | | 2,261 |
| ***Total Education Technology State Grants Cluster:*** | | | 4,919 |
| Total from U.S. Department of Education: | | | 1,827,458 |

See Accompanying Notes and Auditor's Report

**Choice Education and Development Corporation**
Supplementary Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

| Federal Grantor / Program Title / Recipient School | Federal CFDA Number | Federal Award Number or State Project Number | Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Agriculture** | | | |
| Passed Through from Arizona Department of Education: | | | |
| ***Child Nutrition Cluster:*** | | | |
| **School Breakfast Program** | | | |
| Sequoia School for the Deaf and Hard of Hearing | 10.553 | N/A | 3,514 |
| Sequoia Charter School | 10.553 | N/A | 152,638 |
| Learning Crossroads Basic Academy | 10.553 | N/A | 17,134 |
| | | | 173,286 |
| **National School Lunch Program** | | | |
| Sequoia Charter School | 10.555 | N/A | 111,067 |
| Sequoia Village Charter School | 10.555 | N/A | 61,467 |
| Sequoia School for the Deaf and Hard of Hearing | 10.555 | N/A | 14,803 |
| Learning Crossroads Basic Academy | 10.555 | N/A | 68,086 |
| Arizona Conservatory for Arts and Academics | 10.555 | N/A | 22,995 |
| | | | 278,418 |
| ***Total Child Nutrition Cluster:*** | | | 451,704 |
| **Total Expenditures of Federal Awards** | | | $ 2,279,162 |

See Accompanying Notes and Auditor's Report

**Choice Education and Development Corporation**
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

## *NOTE 1 – REPORTING ENTITY:*

Choice Education and Development Corporation (the School) is an Arizona nonprofit corporation which operates public charter schools in Arizona.

## *NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:*

**Basis of Presentation**

The expenditures in the accompanying schedule of expenditures of federal awards are reported under the accrual basis of accounting. Purchases of fixed assets are recorded as expenditures in the year the expenditure is accrued, rather than in the year depreciation expense is taken.

**Schedule of Expenditures of Federal Awards**

The awards schedule presents only the expenditures incurred by the School that are reimbursable under federal programs of federal agencies providing financial assistance. Only the portion of program expenditures reimbursable with such federal funds is reported in the schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the schedule.

The schedule was prepared from only the accounts of the grant programs and therefore does not represent the financial position or results of operations of the School. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

KLECKA, WILKINS & KLECKA
• CERTIFIED PUBLIC ACCOUNTANTS •

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Choice Education and Development Corporation
Mesa, Arizona

## Compliance

We have audited the compliance of Choice Education and Development Corporation with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Choice Education and Development Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Choice Education and Development Corporation's management. Our responsibility is to express an opinion on Choice Education and Development Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Choice Education and Development Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Choice Education and Development Corporation's compliance with those requirements.

In our opinion, Choice Education and Development Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## Internal Control over Compliance

Management of Choice Education and Development Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Choice Education and Development Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Choice Education and Development Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended for the information of management, others within the School, federal and state awarding agencies, pass-through entities and the Arizona State Board for Charter Schools and is not intended to be and should not be used by anyone other than these specified parties.

Leachman, Wilkins & Clark

Phoenix, Arizona
February 27, 2012

**Choice Education and Development Corporation**
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

## A. SUMMARY OF AUDIT RESULTS:

1. The auditor's report dated February 27, 2012 expresses an unqualified opinion on the financial statements of Choice Education and Development Corporation.

2. No significant deficiencies were identified during the audit of the financial statements.

3. No instances of noncompliance material to the financial statements of Choice Education and Development Corporation were disclosed during the audit of the financial statements.

4. No significant deficiencies were identified during the audit of the major federal award programs.

5. The *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133* expresses an unqualified opinion with respect to compliance with the requirements of the major program tested.

6. No audit findings were required to be reported relative to the major federal awards programs.

7. Four programs were major programs: ARRA Education Jobs Fund (84.410); Title I, Part A Cluster (84.010 and 84.389); Special Education (IDEA) Cluster (84.027 and 84.391); and Child Nutrition Program Cluster (10.553 and 10.555).

8. The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

9. Choice Education and Development Corporation did not qualify as a low-risk auditee.

## B. FINDINGS REQUIRED TO BE REPORTED UNDER GOVERNMENT AUDITING STANDARDS:

1. There were no instances of noncompliance required to be reported under generally accepted government auditing standards.

## C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

1. There were no findings or questioned costs relating to the audit of the federal award programs.

**Choice Education and Development Corporation**
Corrective Action Plan
Year Ended June 30, 2011

Not applicable.

**Choice Education and Development Corporation**
Schedule of Prior Year Audit Findings
Year Ended June 30, 2011

## NOTE 2010-F1: RECORDS MAINTENANCE

***Condition*** The School did not keep separate records in its accounting ledger for receipts or expenditures associated with the majority of its state fiscal stabilization funds disbursed under CFDA 84.394 - ARRA Education Stabilization Fund – Education State Grants, Recovery Act.

***Recommendation*** The School should record receipts and expenditures of its state fiscal stabilization funds in the same manner that it records transactions for its other federal funds, i.e., by recording transactions by separate fund, object and site levels as appropriate.

***Corrective Action:*** The School proposed to establish a separate fund to track and record revenues and expenditures of state fiscal stabilization funds under CFDA No. 84.394.

***Status*** During the year ended June 30, 2011, the School separated and recorded receipts of state fiscal stabilization funds by using unique function and object codes. However, expenditures of state fiscal stabilization funds were not separated from general funds in the same manner that transactions for other federal funds are recorded, i.e., by recording transactions by separate fund, object and site levels as appropriate.

## NOTE 2010-F2: RECORDS MAINTENANCE (2)

***Condition*** The School did not maintain its accounting system in a manner sufficient to prepare an accurate schedule of expenditures of federal awards.

***Recommendation*** The School should record receipts and expenditures of its state fiscal stabilization funds in the same manner that it records transactions for its other federal funds, i.e., by recording transactions by separate fund, object and site levels as appropriate. The School should then use those records to prepare the schedule of expenditures of federal awards and reconcile the schedule with its accounting records.

***Corrective Action:*** The School proposed to establish a separate fund to track and record revenues and expenditures of state fiscal stabilization funds under CFDA No. 84.394 and institute monthly and annual controls to ensure that federal award expenditures are recorded properly and errors in financial reporting will be corrected on at least a monthly basis.

***Status*** During the year ended June 30, 2011, the School separated and recorded receipts of state fiscal stabilization funds. However, expenditures of state fiscal stabilization funds were not separated from general funds in the same manner that transactions for other federal funds are recorded. As a result, the School again prepared the state fiscal stabilization portion of its schedule of expenditures of federal awards by estimating expenditures based on awards received.

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**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors
Choice Education and Development Corporation
Mesa, Arizona

We have performed the procedures included in five Legal Compliance Questionnaires of the Arizona State Board for Charter Schools and enumerated below, which were agreed to by Choice Education and Development Corporation and the Arizona State Board for Charter Schools (ASBCS), solely to assist you and the ASBCS in evaluating management's assertion about Choice Education and Development Corporation's compliance with the requirements of applicable state law, regulations of the ASBCS, and provisions of your charter contract as of and for the year ended June 30, 2011 and for testing dates specified by us. Choice Education and Development Corporation's management is responsible for compliance with all laws, regulations issued by ASBCS, and provisions of its charter contract. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We obtained sufficient evidence necessary to complete the Legal Compliance Questionnaires as required by the ASBCS.
2. We completed the Legal Compliance Questionnaires as required by the ASBCS.
3. We noted on the Legal Compliance Questionnaires all noncompliance requiring a "No" answer, material or otherwise, of which we became aware.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying compliance questionnaire. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended for the information and use of management, others within the School, federal and state awarding agencies, pass-through entities and the Arizona State Board for Charter Schools and is not intended to be and should not be used by anyone other than these specified parties.

Klecka, Wilkins & Klecka

Phoenix, Arizona
February 27, 2012

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**Arizona State Board for Charter Schools**

**Legal Compliance Questionnaire**

**Choice Education and Development Corporation**

**Arizona Conservatory for Arts and Academics**

**Fiscal Year Ended June 30, 2011**

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## INSTRUCTIONS

**NOTE: This questionnaire should only be used for schools that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (schools that HAVE an exception). If a school is subject to procurement requirements pursuant to A.R.S. §15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines memo dated 6/13/2011) which is available on the Arizona State Board for Charter Schools' website http://asbcs.az.gov.**

In order to determine whether a charter school that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the auditors must complete the following Legal Compliance Questionnaire (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools).

The following prescribed minimum audit standards for completing the Legal Compliance Questionnaire must be used in all audits. The State Board for Charter Schools may reject audits not meeting these standards.

- Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the school complies with the legal requirements, and the evidence must be included in the audit documentation.

- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.

- Population size should be considered in determining the number of items to test, and the items selected should be representative of the population.

- The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.

- The sample size should be expanded if the audit firm cannot clearly determine whether the school complies with the legal requirements of the question.

- If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.

- All "No" and "N/A" answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.

- A "Yes" answer indicates that the audit firm has determined that the school complies with the legal requirements of the question and a "No" answer indicates the school does not comply. However, the final determination of compliance on each question, as well as overall compliance with legal requirements, is made by the State Board for Charter Schools based on the evidence presented in the questionnaire, audit reports, the audit documentation, and any other sources.

The resulting audit documentation supporting the audit firm's answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the audit documentation a copy of the questionnaire containing references to audit procedures performed for each question.

# Legal Compliance Questionnaire

| Questions/Subject Area | Yes/No | Comments |
|---|---|---|
| **Personnel** | | |
| 1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512(H)** | Yes | |
| (QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.)<br><br>2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board's website prior to completing these questions)**A.R.S. §15-183(C)(5):**<br><br>a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date? | N/A | All required personnel had FCCs. |
| b. Did DPS receive the application prior to the hire date? | N/A | All required personnel had FCCs. |
| c. Prior to placement, did the school do all of the following?<br><br>i) Document the necessity for hiring/placing the individual prior to receiving a FCC? | N/A | All required personnel had FCCs. |
| ii) Obtain statewide criminal history information on the individual? | N/A | All required personnel had FCCs. |
| iii) Obtain references from the applicant's current and previous employers? | N/A | All required personnel had FCCs. |
| 3. Did the charter school maintain up-to-date fingerprints of all governing board members as of the testing date? **Charter Contract**[1] | Yes | |
| 4. Were all other personnel fingerprint checked as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512** | Yes | |
| 5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of resume information for all employees who provide instruction to pupils? **A.R.S. §15-183 (F)** | Yes | |

[1] Specific contract cites could not be provided as term references vary per contract year.

| | Yes/No | Comments |
|---|---|---|
| **Required Filings** | | |
| 1. Is the school in good standing with the following regulatory bodies:<br><br>a. Internal Revenue Service **U.S.C. Title 26** | | |
| i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service? | N/A | Response was Yes |
| iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was not yes |
| b. Arizona Department of Revenue **A.R.S. §43-401 and §43-1111** | | |
| i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue? | N/A | Response was Yes |
| iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was not Yes |
| c. Arizona Department of Economic Security **A.R.S. § 23-721 et seq.** | | |
| i. State unemployment contributions requirements for the audited fiscal year? | Yes | |
| ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security? | N/A | Response was Yes |
| iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was not Yes |
| d. Corporation Commission (e.g., annual report)? **Charter** | Yes | |

| Contract | | |
|---|---|---|
| 2. Was a copy of the adopted budget signed by the Governing Board and filed with the Superintendent of Public Instruction by July 18th? **A.R.S. §15-905 (B) and (E) and §15-183 (E)(6)** | Yes | |
| 3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15th? **A.R.S. §15-183 (E) (6) and 15-904 (A)** | Yes | |
| **Special Education** | | |
| 1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education? | Yes | |
| 2. Does the school conduct 45 day screenings on all new students? **AAC R7-2-401** | Yes | |
| 3. Are evaluations and IEPs on file for special education students? **34 CFR 300.341-350 and 300.531-536** | Yes | |
| **Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum #44** | | |
| 1. Did the School properly allocate Classroom Site Fund receipts among the following projects: 1011—Base Salary (20%), 1012—Performance Pay (40%), and 1013—Other (40%)? | Yes | |
| 2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses? | Yes | |
| 3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses? | Yes | |
| 4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums? | Yes | |
| 5. Did the School use Classroom Site monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance for Classroom Site Projects.) | Yes | |
| 6. If the School had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years? | Yes | |
| 7. Did the School have sufficient cash at year- end to cover the carry over monies? | Yes | |
| **Student Attendance Reporting** | | |
| **If test work performed in questions 3-15 and 18 of this section discloses a net overstatement or understatement of membership and/or absence days, report the net overstatement or understatement in the "Comments" column.** | | |

| | Yes/No | Comments |
|---|---|---|
| 1. Was school in session for at least 180 days or 144 days for schools operating on a 4-day week, or did the governing board adopt a calendar with an equivalent number of minutes of instruction per school year based on a different number of days of instruction and were membership and attendance recorded for each day school was in session? **A.R.S. §§15-902 (H), (I),** and (J) and **15-341.01** | Yes | |
| 2. Did the School ensure that: (**Note:** Instruction hours do not include periods of the day in which an instructional program or course of study is not being offered, including, but not limited to, lunch, recesses, home room periods, study hall periods, and early release or late start hours. **ADE's** ***School Finance Procedures Manual)*** | | |
| a. Kindergarten was in session for at least 356 hours? **A.R.S. §15-901(A)(2)** | N/A | No grades below 6th. |
| b. Grades 1 through 3 were in session for at least 712 hours? **A.R.S. §15-901(A)(2)** | N/A | No grades below 6th. |
| c. Grades 4 through 6 were in session for at least 890 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| d. Grades 7 and 8 were in session for at least 1,000 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| e. For high school, a full-time instructional program meets at least 720 hours during the minimum number of days required? **A.R.S. §15-901(A)(2)** | Yes | |
| f. For high school, a full-time instructional program includes at least four subjects, each of which if taught each school day for the minimum number of days required in a school year, would meet a minimum of 123 hours a year; or any number of subjects totaling at least 20 hours per week, prorated for any week with fewer than 5 school days? **A.R.S. §15-901(A)(2)** | Yes | |
| **For Student Attendance Reporting questions 3-15, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. That sample should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested in steps 3-10 and 15 should be selected from the 100th day reporting period.**<br>**In the parentheses provided in questions 3-15, indicate the actual number of transactions tested. If all transactions were tested, indicate such in the "Comments" column.** | | |

| | | |
|---|---|---|
| **For questions 3-5 select at least 3 student attendance records.** | | |
| 3. If the School had an early (pre-)kindergarten program, based upon review of (_0___) early (pre-) kindergarten students' attendance records, did the School only calculate and submit ADM data to ADE for this program if the program was designed to advance students to the first grade at the end of the of the school year? **A.R.S. §15-901(A)(2)(a)(i) and USFRCS Memorandum No. 33** | N/A | No grades below 6th. |
| 4. Based upon review of (__0__) students' attendance records in kindergarten programs with instructional time between 356 and 692 hours a year, were students not in attendance for at least three-quarters of the day counted as being absent? If the instructional time for the year was 692 hours or more, were students not in attendance at least one-half of the day counted as being absent? **A.R.S. §§15-901(A)(2)(a)(i) and 15-901(A)(6)(a)(i)** | N/A | No grades below 6th. |
| 5. If the School had an early first grade program, based upon review of (_0__) early first grade students' attendance records, did the School calculate and submit ADM for this program as it would for kindergarten in accordance with ADE's *School Finance Procedures Manual*? **A.R.S. §15-901(A)(2)(b)(i) and USFRCS Memorandum No. 33** | N/A | No grades below 6th. |
| **For questions 6 and 7, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15**<br>6. Based on review of ( 0 ) students' attendance records at elementary and junior high schools, in which attendance was based on half days, were students in attendance for less than one-half the day counted as being absent for one full day? Were students in attendance for at least one-half day, but less than three-quarters of a day, counted as being absent for one-half day? Were students in attendance for at least three-quarters of a day counted in attendance for a day? **A.R.S. §15-901(A)(6)(b)(ii)** | N/A | Attendance based on quarter days. |

| | | |
|---|---|---|
| 7. Based upon review of (5) students' attendance records at elementary and junior high schools where attendance was based on quarter days, were students in attendance for more than three-quarters of the day counted in attendance for a day? Were students in attendance for three-quarters of the day or less counted in attendance for each quarter of the day in attendance? **A.R.S. §15-901(A)(6)(b)(i)** | Yes | |
| **For questions 8 through 12, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **3**<br>**1,000-5,000** / **5**<br>**>5,000** / **7**<br>8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for (0) students whose attendance was reported in minutes, did the School report minutes of attendance only for actual classroom instruction attended by the students in accordance with ADE's *School Finance Procedures Manual*? | N/A | Attendance based on quarter days. |
| 9. Based upon review of (3) high school students' records whose attendance was reported in terms of absences, for all absence days reported in a 1 month period, did the School report the absences in accordance with the method(s) provided in ADE's *School Finance Procedures Manual*? | Yes | |
| 10. Based upon review of (_0__) high school students' attendance records, did the School prorate the membership of the high school students enrolled in less than four subjects as provided in ADE's *School Finance Procedures Manual*? | N/A | No students enrolled in fewer than four subjects. |

| | | |
|---|---|---|
| 11. For schools offering an Arizona Online Instruction (AOI) Program, based upon a review of (__0__) AOI students' attendance records for 4 weeks:<br><br>a. Was the guardian-approved or School computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI School? **A.R.S. §15-808(E)** | N/A | No AOI program. |
| b. Did the hours reported to ADE agree to the guardian-approved or School computer-generated daily log? | N/A | No AOI program. |
| c. Were all pupils who participated in an AOI Program residents of this State? **A.R.S. §15-808** | N/A | No AOI program. |
| 12. Based upon review of (8) students' attendance records (all grades) for students withdrawn for having 10 consecutive unexcused absences, was the student only counted in membership through the last day of actual attendance? **A.R.S. §15-901(A)(2)** | Yes | |
| **For questions 13 and 14, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Entries/Withdrawals**<br>**<1,000** — **5**<br>**1,000-5,000** — **10**<br>**>5,000** — **15** | | |
| 13. Based upon review of (5) entries: (**Note:** Enrollment forms are not required for continuing students at the same school.) | | |
| a. Were entry dates entered into the School's computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry? | Yes | |
| b. Did the entry date in the computerized attendance system agree to the entry form? | Yes | |
| c. Did the teacher's attendance registers, if used, and other documentation support the entry date in the computerized attendance system? | Yes | |
| d. Did membership for continuing/pre-enrolled students begin with either the first day of actual attendance or the first day that classroom instruction was offered, provided | Yes | |

| | | |
|---|---|---|
| that the students actually attend within the first 10 days of school? For all other students, did membership begin with the first day of actual attendance? **ADE's** ***School Finance Procedures Manual*** | | |
| 14. Based upon review of (5) withdrawals: | | |
| a. Were the withdrawal dates entered into the School's computerized attendance system within 5 working days after the actual date of withdrawal and was documentation maintained to support the date of data entry? (**Note:** "Day of withdrawal" means: a.) the later of the student's withdrawal date or the day the school is notified the student will not be returning; or b.) the 10th day of non-attendance for students withdrawn for having ten consecutive unexcused absences.) | Yes | |
| b. Did the withdrawal date in the attendance system agree to the withdrawal form? (**Note:** If the computerized attendance system requires the school to input the first day of non-attendance for a student to be counted in membership through the last day of actual attendance, the withdrawal date on the system should be the school day following the withdrawal date on the form.) | Yes | |
| c. Did the teachers' attendance registers, if used, and other supporting documentation support the withdrawal date in the computerized attendance system? | Yes | |
| d. Was an Official Notice of Pupil Withdrawal form prepared and retained for each withdrawal and signed by a school administrator? **A.R.S. §15-827** | Yes | |
| **For question 15, use the following sample sizes:**<br>**SCHOOLWIDE ADM** — **Days**<br>**<1,000** — **3**<br>**1,000-5,000** — **5**<br>**>5,000** — **7** | | |
| 15. Based upon review of (3) days for various campuses, grades, and classes in the computerized attendance system, did the student absences from each day agree to the teachers' attendance registers, absence slips, or other supporting documentation, if used? | Yes | |

| | | |
|---|---|---|
| 16. Did the school have adequate electronic or manual controls in place to ensure that any changes to the original record of student attendance data were properly authorized and documented, including the names or identification numbers of the persons making and authorizing the changes? | Yes | |
| 17. Was the School's membership/absence information submitted to ADE electronically at least once every 20 school days through the last day of instruction (with the first 20 day period beginning the first day of school or the opening of SAIS for current fiscal year data submission, whichever is later)? **A.R.S. §15-1042(H)** | Yes | |
| 18. Based upon review of the School's 40th and 100th day information uploaded to ADE, did the membership and absences agree with the School's computerized attendance system records? (**Note:** For an AOI program, review year-end attendance information.) | Yes | |
| | **Yes/No** | **Comments** |
| **Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)** | | |
| 1. Beginning July 29, 2010, did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations? **Laws 2010, Chapter 88** ? | Yes | |
| 2. Beginning July 29, 2010, did the school post all public meeting notices on its website? **Laws 2010, Chapter 88** | Yes | |
| 3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting? | Yes | |
| 4. Were notices and agenda of public meetings posted at least 24 hours before the meeting? | Yes | |
| 5. Were written minutes prepared or a recording made of Governing Body meetings? | Yes | |
| **Insurance Requirements A.R.S. §15-183(M)** | | |
| Does the school have the required insurance for liability and property loss? | Yes | |

| | | |
|---|---|---|
| **Tuition A.R.S. §15-185 (B)(6) (See also Attorney General Opinion I98-007) and Laws 2010, 7th S.S., Ch. 8, Sec. 16** | | |
| Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents] and Laws 2010, 7th S.S., Ch. 8, Sec. 16 [full-day kindergarten for fiscal year 2011 only]? | Yes | |
| **Records Management** | | |
| 1. Did the school retain records in accordance with the Records Retention and Disposition for Arizona School Districts Manual published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? | Yes | |
| 2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)? | Yes | |

This Questionnaire was completed in accordance with the minimum audit standards as set forth in the instructions on pages 2 and 3.

| | |
|---|---|
| Klecka, Wilkins & Klecka | February 27, 2012 |
| Audit Firm | Date |
| | Partner |
| Preparer's Signature (Audit Firm Representative) | Title |

**Arizona State Board for Charter Schools**

**Legal Compliance Questionnaire**

**Choice Education and Development Corporation**

**Learning Crossroads Basic Academy**

**Fiscal Year Ended June 30, 2011**

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## INSTRUCTIONS

**NOTE: This questionnaire should only be used for schools that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (schools that HAVE an exception). If a school is subject to procurement requirements pursuant to A.R.S. §15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines memo dated 6/13/2011) which is available on the Arizona State Board for Charter Schools' website http://asbcs.az.gov.**

In order to determine whether a charter school that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the auditors must complete the following Legal Compliance Questionnaire (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools).

The following prescribed minimum audit standards for completing the Legal Compliance Questionnaire must be used in all audits. The State Board for Charter Schools may reject audits not meeting these standards.

- Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the school complies with the legal requirements, and the evidence must be included in the audit documentation.

- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.

- Population size should be considered in determining the number of items to test, and the items selected should be representative of the population.

- The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.

- The sample size should be expanded if the audit firm cannot clearly determine whether the school complies with the legal requirements of the question.

- If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.

- All "No" and "N/A" answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.

- A "Yes" answer indicates that the audit firm has determined that the school complies with the legal requirements of the question and a "No" answer indicates the school does not comply. However, the final determination of compliance on each question, as well as overall compliance with legal requirements, is made by the State Board for Charter Schools based on the evidence presented in the questionnaire, audit reports, the audit documentation, and any other sources.

The resulting audit documentation supporting the audit firm's answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the audit documentation a copy of the questionnaire containing references to audit procedures performed for each question.

# Legal Compliance Questionnaire

| Questions/Subject Area | Yes/No | Comments |
|---|---|---|
| **Personnel** | | |
| 1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512(H)** | Yes | |
| (QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.)<br><br>2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board's website prior to completing these questions)**A.R.S. §15-183(C)(5):**<br><br>a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date? | N/A | All required personnel had FCCs. |
| b. Did DPS receive the application prior to the hire date? | N/A | All required personnel had FCCs. |
| c. Prior to placement, did the school do all of the following?<br><br>i) Document the necessity for hiring/placing the individual prior to receiving a FCC? | N/A | All required personnel had FCCs. |
| ii) Obtain statewide criminal history information on the individual? | N/A | All required personnel had FCCs. |
| iii) Obtain references from the applicant's current and previous employers? | N/A | All required personnel had FCCs. |
| 3. Did the charter school maintain up-to-date fingerprints of all governing board members as of the testing date? **Charter Contract**[1] | Yes | |
| 4. Were all other personnel fingerprint checked as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512** | Yes | |
| 5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of resume information for all employees who provide instruction to pupils? **A.R.S. §15-183 (F)** | Yes | |

[1] Specific contract cites could not be provided as term references vary per contract year.

| | Yes/No | Comments |
|---|---|---|
| **Required Filings** | | |
| 1. Is the school in good standing with the following regulatory bodies:<br><br>a. Internal Revenue Service **U.S.C. Title 26** | | |
| i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service? | N/A | Response was Yes |
| iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was Not Yes |
| b. Arizona Department of Revenue **A.R.S. §43-401 and §43-1111** | | |
| i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue? | N/A | Response was Yes |
| iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was Not Yes |
| c. Arizona Department of Economic Security **A.R.S. § 23-721 et seq.** | | |
| i. State unemployment contributions requirements for the audited fiscal year? | Yes | |
| ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security? | N/A | Response was Yes |
| iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was Not Yes |
| d. Corporation Commission (e.g., annual report)? **Charter** | Yes | |

| | | |
|---|---|---|
| **Contract** | | |
| 2. Was a copy of the adopted budget signed by the Governing Board and filed with the Superintendent of Public Instruction by July 18th? **A.R.S. §15-905 (B) and (E) and §15-183 (E)(6)** | Yes | |
| 3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15th? **A.R.S. §15-183 (E) (6) and 15-904 (A)** | Yes | |
| **Special Education** | | |
| 1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education? | Yes | |
| 2. Does the school conduct 45 day screenings on all new students? **AAC R7-2-401** | Yes | |
| 3. Are evaluations and IEPs on file for special education students? **34 CFR 300.341-350 and 300.531-536** | Yes | |
| **Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum #44** | | |
| 1. Did the School properly allocate Classroom Site Fund receipts among the following projects: 1011 – Base Salary (20%), 1012 – Performance Pay (40%), and 1013 – Other (40%)? | Yes | |
| 2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses? | Yes | |
| 3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses? | Yes | |
| 4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums? | Yes | |
| 5. Did the School use Classroom Site monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance for Classroom Site Projects.) | Yes | |
| 6. If the School had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years? | Yes | |
| 7. Did the School have sufficient cash at year- end to cover the carry over monies? | Yes | |
| **Student Attendance Reporting** | | |
| **If test work performed in questions 3-15 and 18 of this section discloses a net overstatement or understatement of membership and/or absence days, report the net overstatement or understatement in the "Comments" column.** | | |

| | Yes/No | Comments |
|---|---|---|
| 1. Was school in session for at least 180 days or 144 days for schools operating on a 4-day week, or did the governing board adopt a calendar with an equivalent number of minutes of instruction per school year based on a different number of days of instruction and were membership and attendance recorded for each day school was in session? **A.R.S. §§15-902 (H), (I),** and (J) and **15-341.01** | Yes | |
| 2. Did the School ensure that: (**Note:** Instruction hours do not include periods of the day in which an instructional program or course of study is not being offered, including, but not limited to, lunch, recesses, home room periods, study hall periods, and early release or late start hours. **ADE's** ***School Finance Procedures Manual)*** | | |
| a. Kindergarten was in session for at least 356 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| b. Grades 1 through 3 were in session for at least 712 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| c. Grades 4 through 6 were in session for at least 890 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| d. Grades 7 and 8 were in session for at least 1,000 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| e. For high school, a full-time instructional program meets at least 720 hours during the minimum number of days required? **A.R.S. §15-901(A)(2)** | Yes | |
| f. For high school, a full-time instructional program includes at least four subjects, each of which if taught each school day for the minimum number of days required in a school year, would meet a minimum of 123 hours a year; or any number of subjects totaling at least 20 hours per week, prorated for any week with fewer than 5 school days? **A.R.S. §15-901(A)(2)** | Yes | |
| **For Student Attendance Reporting questions 3-15, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. That sample should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested in steps 3-10 and 15 should be selected from the 100th day reporting period.**<br>**In the parentheses provided in questions 3-15, indicate the actual number of transactions tested. If all transactions were tested, indicate such in the "Comments" column.** | | |

| | | |
|---|---|---|
| **For questions 3-5 select at least 3 student attendance records.** | | |
| 3. If the School had an early (pre-)kindergarten program, based upon review of (_0__) early (pre-) kindergarten students' attendance records, did the School only calculate and submit ADM data to ADE for this program if the program was designed to advance students to the first grade at the end of the of the school year? **A.R.S. §15-901(A)(2)(a)(i) and USFRCS Memorandum No. 33** | N/A | No early kindergarten. |
| 4. Based upon review of (_3__) students' attendance records in kindergarten programs with instructional time between 356 and 692 hours a year, were students not in attendance for at least three-quarters of the day counted as being absent? If the instructional time for the year was 692 hours or more, were students not in attendance at least one-half of the day counted as being absent? **A.R.S. §§15-901(A)(2)(a)(i) and 15-901(A)(6)(a)(i)** | Yes | |
| 5. If the School had an early first grade program, based upon review of (_0__) early first grade students' attendance records, did the School calculate and submit ADM for this program as it would for kindergarten in accordance with ADE's *School Finance Procedures Manual*? **A.R.S. §15-901(A)(2)(b)(i) and USFRCS Memorandum No. 33** | N/A | No early first grade. |
| **For questions 6 and 7, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15**<br>6. Based on review of (_0___) students' attendance records at elementary and junior high schools, in which attendance was based on half days, were students in attendance for less than one-half the day counted as being absent for one full day? Were students in attendance for at least one-half day, but less than three-quarters of a day, counted as being absent for one-half day? Were students in attendance for at least three-quarters of a day counted in attendance for a day? **A.R.S. §15-901(A)(6)(b)(ii)** | N/A | Attendance is based on quarter days. |

| | | |
|---|---|---|
| 7. Based upon review of (5) students' attendance records at elementary and junior high schools where attendance was based on quarter days, were students in attendance for more than three-quarters of the day counted in attendance for a day? Were students in attendance for three-quarters of the day or less counted in attendance for each quarter of the day in attendance? **A.R.S. §15-901(A)(6)(b)(i)** | Yes | |
| **For questions 8 through 12, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **3**<br>**1,000-5,000** / **5**<br>**>5,000** / **7**<br>8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for (0) students whose attendance was reported in minutes, did the School report minutes of attendance only for actual classroom instruction attended by the students in accordance with ADE's *School Finance Procedures Manual*? | N/A | Attendance is based on quarter days. |
| 9. Based upon review of (3) high school students' records whose attendance was reported in terms of absences, for all absence days reported in a 1 month period, did the School report the absences in accordance with the method(s) provided in ADE's *School Finance Procedures Manual*? | Yes | |
| 10. Based upon review of (3) high school students' attendance records, did the School prorate the membership of the high school students enrolled in less than four subjects as provided in ADE's *School Finance Procedures Manual*? | Yes | |

| | | |
|---|---|---|
| 11. For schools offering an Arizona Online Instruction (AOI) Program, based upon a review of (_0__) AOI students' attendance records for 4 weeks:<br><br>a. Was the guardian-approved or School computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI School? **A.R.S. §15-808(E)** | N/A | No AOI program. |
| b. Did the hours reported to ADE agree to the guardian-approved or School computer-generated daily log? | N/A | No AOI program. |
| c. Were all pupils who participated in an AOI Program residents of this State? **A.R.S. §15-808** | N/A | No AOI program. |
| 12. Based upon review of (3) students' attendance records (all grades) for students withdrawn for having 10 consecutive unexcused absences, was the student only counted in membership through the last day of actual attendance? **A.R.S. §15-901(A)(2)** | Yes | |
| **For questions 13 and 14, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Entries/Withdrawals**<br>**<1,000** — **5**<br>**1,000-5,000** — **10**<br>**>5,000** — **15** | | |
| 13. Based upon review of (5) entries: (**Note:** Enrollment forms are not required for continuing students at the same school.) | | |
| a. Were entry dates entered into the School's computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry? | Yes | |
| b. Did the entry date in the computerized attendance system agree to the entry form? | Yes | |
| c. Did the teacher's attendance registers, if used, and other documentation support the entry date in the computerized attendance system? | Yes | |
| d. Did membership for continuing/pre-enrolled students begin with either the first day of actual attendance or the first day that classroom instruction was offered, provided | Yes | |

| | | |
|---|---|---|
| that the students actually attend within the first 10 days of school? For all other students, did membership begin with the first day of actual attendance? **ADE's** ***School Finance Procedures Manual*** | | |
| 14. Based upon review of (5) withdrawals: | | |
| a. Were the withdrawal dates entered into the School's computerized attendance system within 5 working days after the actual date of withdrawal and was documentation maintained to support the date of data entry? (**Note:** "Day of withdrawal" means: a.) the later of the student's withdrawal date or the day the school is notified the student will not be returning; or b.) the 10th day of non-attendance for students withdrawn for having ten consecutive unexcused absences.) | Yes | |
| b. Did the withdrawal date in the attendance system agree to the withdrawal form? (**Note:** If the computerized attendance system requires the school to input the first day of non-attendance for a student to be counted in membership through the last day of actual attendance, the withdrawal date on the system should be the school day following the withdrawal date on the form.) | Yes | |
| c. Did the teachers' attendance registers, if used, and other supporting documentation support the withdrawal date in the computerized attendance system? | Yes | |
| d. Was an Official Notice of Pupil Withdrawal form prepared and retained for each withdrawal and signed by a school administrator? **A.R.S. §15-827** | Yes | |
| **For question 15, use the following sample sizes:**<br>**SCHOOLWIDE ADM** — **Days**<br>**<1,000** — **3**<br>**1,000-5,000** — **5**<br>**>5,000** — **7** | | |
| 15. Based upon review of (3) days for various campuses, grades, and classes in the computerized attendance system, did the student absences from each day agree to the teachers' attendance registers, absence slips, or other supporting documentation, if used? | Yes | |

| | | |
|---|---|---|
| 16. Did the school have adequate electronic or manual controls in place to ensure that any changes to the original record of student attendance data were properly authorized and documented, including the names or identification numbers of the persons making and authorizing the changes? | Yes | |
| 17. Was the School's membership/absence information submitted to ADE electronically at least once every 20 school days through the last day of instruction (with the first 20 day period beginning the first day of school or the opening of SAIS for current fiscal year data submission, whichever is later)? **A.R.S. §15-1042(H)** | Yes | |
| 18. Based upon review of the School's 40th and 100th day information uploaded to ADE, did the membership and absences agree with the School's computerized attendance system records? (**Note:** For an AOI program, review year-end attendance information.) | Yes | |
| | **Yes/No** | **Comments** |
| **Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)** | | |
| 1. Beginning July 29, 2010, did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations? **Laws 2010, Chapter 88** ? | Yes | |
| 2. Beginning July 29, 2010, did the school post all public meeting notices on its website? **Laws 2010, Chapter 88** | Yes | |
| 3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting? | Yes | |
| 4. Were notices and agenda of public meetings posted at least 24 hours before the meeting? | Yes | |
| 5. Were written minutes prepared or a recording made of Governing Body meetings? | Yes | |
| **Insurance Requirements A.R.S. §15-183(M)** | | |
| Does the school have the required insurance for liability and property loss? | Yes | |

| | | |
|---|---|---|
| **Tuition A.R.S. §15-185 (B)(6) (See also Attorney General Opinion I98-007) and Laws 2010, 7th S.S., Ch. 8, Sec. 16** | | |
| Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents] and Laws 2010, 7th S.S., Ch. 8, Sec. 16 [full-day kindergarten for fiscal year 2011 only]? | Yes | |
| **Records Management** | | |
| 1. Did the school retain records in accordance with the Records Retention and Disposition for Arizona School Districts Manual published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? | Yes | |
| 2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)? | Yes | |

This Questionnaire was completed in accordance with the minimum audit standards as set forth in the instructions on pages 2 and 3.

| | |
|---|---|
| Klecka, Wilkins & Klecka | February 27, 2012 |
| Audit Firm | Date |
| | Partner |
| Preparer's Signature (Audit Firm Representative) | Title |

**Arizona State Board for Charter Schools**

**Legal Compliance Questionnaire**

**Choice Education and Development Corporation**

**Sequoia School for the Deaf & Hard of Hearing**

**Fiscal Year Ended June 30, 2011**

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## INSTRUCTIONS

**NOTE: This questionnaire should only be used for schools that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (schools that HAVE an exception). If a school is subject to procurement requirements pursuant to A.R.S. §15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines memo dated 6/13/2011) which is available on the Arizona State Board for Charter Schools' website http://asbcs.az.gov.**

In order to determine whether a charter school that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the auditors must complete the following Legal Compliance Questionnaire (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools).

The following prescribed minimum audit standards for completing the Legal Compliance Questionnaire must be used in all audits. The State Board for Charter Schools may reject audits not meeting these standards.

- Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the school complies with the legal requirements, and the evidence must be included in the audit documentation.

- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.

- Population size should be considered in determining the number of items to test, and the items selected should be representative of the population.

- The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.

- The sample size should be expanded if the audit firm cannot clearly determine whether the school complies with the legal requirements of the question.

- If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.

- All "No" and "N/A" answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.

- A "Yes" answer indicates that the audit firm has determined that the school complies with the legal requirements of the question and a "No" answer indicates the school does not comply. However, the final determination of compliance on each question, as well as overall compliance with legal requirements, is made by the State Board for Charter Schools based on the evidence presented in the questionnaire, audit reports, the audit documentation, and any other sources.

The resulting audit documentation supporting the audit firm's answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the audit documentation a copy of the questionnaire containing references to audit procedures performed for each question.

# Legal Compliance Questionnaire

| Questions/Subject Area | Yes/No | Comments |
|---|---|---|
| **Personnel** | | |
| 1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512(H)** | Yes | |
| (QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.)<br><br>2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board's website prior to completing these questions)**A.R.S. §15-183(C)(5)**:<br><br>a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date? | N/A | All required personnel had FCCs. |
| b. Did DPS receive the application prior to the hire date? | N/A | All required personnel had FCCs. |
| c. Prior to placement, did the school do all of the following?<br><br>i) Document the necessity for hiring/placing the individual prior to receiving a FCC? | N/A | All required personnel had FCCs. |
| ii) Obtain statewide criminal history information on the individual? | N/A | All required personnel had FCCs. |
| iii) Obtain references from the applicant's current and previous employers? | N/A | All required personnel had FCCs. |
| 3. Did the charter school maintain up-to-date fingerprints of all governing board members as of the testing date? **Charter Contract**[1] | Yes | |
| 4. Were all other personnel fingerprint checked as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512** | Yes | |
| 5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of resume information for all employees who provide instruction to pupils? **A.R.S. §15-183 (F)** | Yes | |

[1] Specific contract cites could not be provided as term references vary per contract year.

| | Yes/No | Comments |
|---|---|---|
| **Required Filings** | | |
| 1. Is the school in good standing with the following regulatory bodies:<br><br>a. Internal Revenue Service **U.S.C. Title 26** | | |
| i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service? | N/A | Response was Yes |
| iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response Was not Yes |
| b. Arizona Department of Revenue **A.R.S. §43-401 and §43-1111** | | |
| i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue? | N/A | Response was Yes |
| iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response Was not Yes |
| c. Arizona Department of Economic Security **A.R.S. § 23-721 et seq.** | | |
| i. State unemployment contributions requirements for the audited fiscal year? | Yes | |
| ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security? | N/A | Response was Yes |
| iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response Was not Yes |
| d. Corporation Commission (e.g., annual report)? **Charter** | Yes | |

| | | |
|---|---|---|
| **Contract** | | |
| 2. Was a copy of the adopted budget signed by the Governing Board and filed with the Superintendent of Public Instruction by July 18th? **A.R.S. §15-905 (B) and (E) and §15-183 (E)(6)** | Yes | |
| 3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15th? **A.R.S. §15-183 (E) (6) and 15-904 (A)** | Yes | |
| **Special Education** | | |
| 1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education? | Yes | |
| 2. Does the school conduct 45 day screenings on all new students? **AAC R7-2-401** | Yes | |
| 3. Are evaluations and IEPs on file for special education students? **34 CFR 300.341-350 and 300.531-536** | Yes | |
| **Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum #44** | | |
| 1. Did the School properly allocate Classroom Site Fund receipts among the following projects: 1011—Base Salary (20%), 1012—Performance Pay (40%), and 1013—Other (40%)? | Yes | |
| 2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses? | Yes | |
| 3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses? | Yes | |
| 4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums? | Yes | |
| 5. Did the School use Classroom Site monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance for Classroom Site Projects.) | Yes | |
| 6. If the School had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years? | Yes | |
| 7. Did the School have sufficient cash at year- end to cover the carry over monies? | Yes | |
| **Student Attendance Reporting** | | |
| **If test work performed in questions 3-15 and 18 of this section discloses a net overstatement or understatement of membership and/or absence days, report the net overstatement or understatement in the "Comments" column.** | | |

| | Yes/No | Comments |
|---|---|---|
| 1. Was school in session for at least 180 days or 144 days for schools operating on a 4-day week, or did the governing board adopt a calendar with an equivalent number of minutes of instruction per school year based on a different number of days of instruction and were membership and attendance recorded for each day school was in session? **A.R.S. §§15-902 (H), (I),** and (J) and **15-341.01** | Yes | |
| 2. Did the School ensure that: (**Note:** Instruction hours do not include periods of the day in which an instructional program or course of study is not being offered, including, but not limited to, lunch, recesses, home room periods, study hall periods, and early release or late start hours. **ADE's** *School Finance Procedures Manual)* | | |
| a. Kindergarten was in session for at least 356 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| b. Grades 1 through 3 were in session for at least 712 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| c. Grades 4 through 6 were in session for at least 890 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| d. Grades 7 and 8 were in session for at least 1,000 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| e. For high school, a full-time instructional program meets at least 720 hours during the minimum number of days required? **A.R.S. §15-901(A)(2)** | Yes | |
| f. For high school, a full-time instructional program includes at least four subjects, each of which if taught each school day for the minimum number of days required in a school year, would meet a minimum of 123 hours a year; or any number of subjects totaling at least 20 hours per week, prorated for any week with fewer than 5 school days? **A.R.S. §15-901(A)(2)** | Yes | |
| **For Student Attendance Reporting questions 3-15, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. That sample should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested in steps 3-10 and 15 should be selected from the 100th day reporting period.**<br>**In the parentheses provided in questions 3-15, indicate the actual number of transactions tested. If all transactions were tested, indicate such in the "Comments" column.** | | |

| | | |
|---|---|---|
| **For questions 3-5 select at least 3 student attendance records.** | | |
| 3. If the School had an early (pre-)kindergarten program, based upon review of (_0__) early (pre-) kindergarten students' attendance records, did the School only calculate and submit ADM data to ADE for this program if the program was designed to advance students to the first grade at the end of the of the school year? **A.R.S. §15-901(A)(2)(a)(i) and USFRCS Memorandum No. 33** | N/A | No early kindergarten. |
| 4. Based upon review of (_3__) students' attendance records in kindergarten programs with instructional time between 356 and 692 hours a year, were students not in attendance for at least three-quarters of the day counted as being absent? If the instructional time for the year was 692 hours or more, were students not in attendance at least one-half of the day counted as being absent? **A.R.S. §§15-901(A)(2)(a)(i) and 15-901(A)(6)(a)(i)** | Yes | |
| 5. If the School had an early first grade program, based upon review of (_0__) early first grade students' attendance records, did the School calculate and submit ADM for this program as it would for kindergarten in accordance with ADE's *School Finance Procedures Manual?* **A.R.S. §15-901(A)(2)(b)(i) and USFRCS Memorandum No. 33** | N/A | No early first grade. |
| **For questions 6 and 7, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15**<br>6. Based on review of (0) students' attendance records at elementary and junior high schools, in which attendance was based on half days, were students in attendance for less than one-half the day counted as being absent for one full day? Were students in attendance for at least one-half day, but less than three-quarters of a day, counted as being absent for one-half day? Were students in attendance for at least three-quarters of a day counted in attendance for a day? **A.R.S. §15-901(A)(6)(b)(ii)** | N/A | Attendance based on quarter days. |

| | | |
|---|---|---|
| 7. Based upon review of (5) students' attendance records at elementary and junior high schools where attendance was based on quarter days, were students in attendance for more than three-quarters of the day counted in attendance for a day? Were students in attendance for three-quarters of the day or less counted in attendance for each quarter of the day in attendance? **A.R.S. §15-901(A)(6)(b)(i)** | Yes | |
| **For questions 8 through 12, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **3**<br>**1,000-5,000** / **5**<br>**>5,000** / **7**<br>8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for (0) students whose attendance was reported in minutes, did the School report minutes of attendance only for actual classroom instruction attended by the students in accordance with ADE's *School Finance Procedures Manual*? | N/A | Attendance based on quarter days. |
| 9. Based upon review of (3) high school students' records whose attendance was reported in terms of absences, for all absence days reported in a 1 month period, did the School report the absences in accordance with the method(s) provided in ADE's *School Finance Procedures Manual*? | Yes | |
| 10. Based upon review of (3) high school students' attendance records, did the School prorate the membership of the high school students enrolled in less than four subjects as provided in ADE's *School Finance Procedures Manual*? | Yes | |

| | | |
|---|---|---|
| 11. For schools offering an Arizona Online Instruction (AOI) Program, based upon a review of (_0__) AOI students' attendance records for 4 weeks:<br>a. Was the guardian-approved or School computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI School? **A.R.S. §15-808(E)** | N/A | No AOI program. |
| b. Did the hours reported to ADE agree to the guardian-approved or School computer-generated daily log? | N/A | No AOI program. |
| c. Were all pupils who participated in an AOI Program residents of this State? **A.R.S. §15-808** | N/A | No AOI program. |
| 12. Based upon review of (3) students' attendance records (all grades) for students withdrawn for having 10 consecutive unexcused absences, was the student only counted in membership through the last day of actual attendance? **A.R.S. §15-901(A)(2)** | Yes | |
| **For questions 13 and 14, use the following sample sizes:** | | |
| **SCHOOLWIDE**<br>**ADM** — **Entries/Withdrawals**<br>**<1,000** — **5**<br>**1,000-5,000** — **10**<br>**>5,000** — **15** | | |
| 13. Based upon review of (5) entries: (**Note:** Enrollment forms are not required for continuing students at the same school.) | | |
| a. Were entry dates entered into the School's computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry? | Yes | |
| b. Did the entry date in the computerized attendance system agree to the entry form? | Yes | |
| c. Did the teacher's attendance registers, if used, and other documentation support the entry date in the computerized attendance system? | Yes | |
| d. Did membership for continuing/pre-enrolled students begin with either the first day of actual attendance or the first day that classroom instruction was offered, provided | Yes | |

| | | |
|---|---|---|
| that the students actually attend within the first 10 days of school? For all other students, did membership begin with the first day of actual attendance? **ADE's** ***School Finance Procedures Manual*** | | |
| 14. Based upon review of (5) withdrawals: | | |
| a. Were the withdrawal dates entered into the School's computerized attendance system within 5 working days after the actual date of withdrawal and was documentation maintained to support the date of data entry? (**Note:** "Day of withdrawal" means: a.) the later of the student's withdrawal date or the day the school is notified the student will not be returning; or b.) the 10th day of non-attendance for students withdrawn for having ten consecutive unexcused absences.) | Yes | |
| b. Did the withdrawal date in the attendance system agree to the withdrawal form? (**Note:** If the computerized attendance system requires the school to input the first day of non-attendance for a student to be counted in membership through the last day of actual attendance, the withdrawal date on the system should be the school day following the withdrawal date on the form.) | Yes | |
| c. Did the teachers' attendance registers, if used, and other supporting documentation support the withdrawal date in the computerized attendance system? | Yes | |
| d. Was an Official Notice of Pupil Withdrawal form prepared and retained for each withdrawal and signed by a school administrator? **A.R.S. §15-827** | Yes | |
| **For question 15, use the following sample sizes:**<br>**SCHOOLWIDE ADM** — **Days**<br>**<1,000** — **3**<br>**1,000-5,000** — **5**<br>**>5,000** — **7** | | |
| 15. Based upon review of (3) days for various campuses, grades, and classes in the computerized attendance system, did the student absences from each day agree to the teachers' attendance registers, absence slips, or other supporting documentation, if used? | Yes | |

| | | |
|---|---|---|
| 16. Did the school have adequate electronic or manual controls in place to ensure that any changes to the original record of student attendance data were properly authorized and documented, including the names or identification numbers of the persons making and authorizing the changes? | Yes | |
| 17. Was the School's membership/absence information submitted to ADE electronically at least once every 20 school days through the last day of instruction (with the first 20 day period beginning the first day of school or the opening of SAIS for current fiscal year data submission, whichever is later)? **A.R.S. §15-1042(H)** | Yes | |
| 18. Based upon review of the School's 40th and 100th day information uploaded to ADE, did the membership and absences agree with the School's computerized attendance system records? (**Note:** For an AOI program, review year-end attendance information.) | Yes | |
| | **Yes/No** | **Comments** |
| **Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)** | | |
| 1. Beginning July 29, 2010, did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations? **Laws 2010, Chapter 88** ? | Yes | |
| 2. Beginning July 29, 2010, did the school post all public meeting notices on its website? **Laws 2010, Chapter 88** | Yes | |
| 3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting? | Yes | |
| 4. Were notices and agenda of public meetings posted at least 24 hours before the meeting? | Yes | |
| 5. Were written minutes prepared or a recording made of Governing Body meetings? | Yes | |
| **Insurance Requirements A.R.S. §15-183(M)** | | |
| Does the school have the required insurance for liability and property loss? | Yes | |

| | | |
|---|---|---|
| **Tuition A.R.S. §15-185 (B)(6) (See also Attorney General Opinion I98-007) and Laws 2010, 7th S.S., Ch. 8, Sec. 16** | | |
| Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents] and Laws 2010, 7th S.S., Ch. 8, Sec. 16 [full-day kindergarten for fiscal year 2011 only]? | Yes | |
| **Records Management** | | |
| 1. Did the school retain records in accordance with the Records Retention and Disposition for Arizona School Districts Manual published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? | Yes | |
| 2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)? | Yes | |

This Questionnaire was completed in accordance with the minimum audit standards as set forth in the instructions on pages 2 and 3.

| | |
|---|---|
| Klecka, Wilkins & Klecka | February 27, 2012 |
| Audit Firm | Date |
| | Partner |
| Preparer's Signature (Audit Firm Representative) | Title |

**Arizona State Board for Charter Schools**

**Legal Compliance Questionnaire**

**Choice Education and Development Corporation**

**Sequoia Charter School**

**Fiscal Year Ended June 30, 2011**

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## INSTRUCTIONS

**NOTE: This questionnaire should only be used for schools that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (schools that HAVE an exception). If a school is subject to procurement requirements pursuant to A.R.S. §15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines memo dated 6/13/2011) which is available on the Arizona State Board for Charter Schools' website http://asbcs.az.gov.**

In order to determine whether a charter school that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the auditors must complete the following Legal Compliance Questionnaire (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools).

The following prescribed minimum audit standards for completing the Legal Compliance Questionnaire must be used in all audits. The State Board for Charter Schools may reject audits not meeting these standards.

- Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the school complies with the legal requirements, and the evidence must be included in the audit documentation.

- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.

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- The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.

- The sample size should be expanded if the audit firm cannot clearly determine whether the school complies with the legal requirements of the question.

- If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.

- All "No" and "N/A" answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.

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The resulting audit documentation supporting the audit firm's answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the audit documentation a copy of the questionnaire containing references to audit procedures performed for each question.

# Legal Compliance Questionnaire

| Questions/Subject Area | Yes/No | Comments |
|---|---|---|
| **Personnel** | | |
| 1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512(H)** | Yes | |
| (QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.)<br><br>2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board's website prior to completing these questions)**A.R.S. §15-183(C)(5)**:<br><br>a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date? | N/A | All required personnel had FCCs. |
| b. Did DPS receive the application prior to the hire date? | N/A | All required personnel had FCCs. |
| c. Prior to placement, did the school do all of the following?<br><br>i) Document the necessity for hiring/placing the individual prior to receiving a FCC? | N/A | All required personnel had FCCs. |
| ii) Obtain statewide criminal history information on the individual? | N/A | All required personnel had FCCs. |
| iii) Obtain references from the applicant's current and previous employers? | N/A | All required personnel had FCCs. |
| 3. Did the charter school maintain up-to-date fingerprints of all governing board members as of the testing date? **Charter Contract**[1] | Yes | |
| 4. Were all other personnel fingerprint checked as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512** | Yes | |
| 5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of resume information for all employees who provide instruction to pupils? **A.R.S. §15-183 (F)** | Yes | |

[1] Specific contract cites could not be provided as term references vary per contract year.

| | Yes/No | Comments |
|---|---|---|
| **Required Filings** | | |
| 1. Is the school in good standing with the following regulatory bodies:<br><br>a. Internal Revenue Service **U.S.C. Title 26** | | |
| i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service? | N/A | Response was Yes |
| iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was not Yes |
| b. Arizona Department of Revenue **A.R.S. §43-401 and §43-1111** | | |
| i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue? | N/A | Response was Yes |
| iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was not Yes |
| c. Arizona Department of Economic Security **A.R.S. § 23-721 et seq.** | | |
| i. State unemployment contributions requirements for the audited fiscal year? | Yes | |
| ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security? | N/A | Response was Yes |
| iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was not Yes |
| d. Corporation Commission (e.g., annual report)? **Charter** | Yes | |

| | | |
|---|---|---|
| **Contract** | | |
| 2. Was a copy of the adopted budget signed by the Governing Board and filed with the Superintendent of Public Instruction by July 18th? **A.R.S. §15-905 (B) and (E) and §15-183 (E)(6)** | Yes | |
| 3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15th? **A.R.S. §15-183 (E) (6) and 15-904 (A)** | Yes | |
| **Special Education** | | |
| 1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education? | Yes | |
| 2. Does the school conduct 45 day screenings on all new students? **AAC R7-2-401** | Yes | |
| 3. Are evaluations and IEPs on file for special education students? **34 CFR 300.341-350 and 300.531-536** | Yes | |
| **Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum #44** | | |
| 1. Did the School properly allocate Classroom Site Fund receipts among the following projects: 1011—Base Salary (20%), 1012—Performance Pay (40%), and 1013—Other (40%)? | Yes | |
| 2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses? | Yes | |
| 3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses? | Yes | |
| 4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums? | Yes | |
| 5. Did the School use Classroom Site monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance for Classroom Site Projects.) | Yes | |
| 6. If the School had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years? | Yes | |
| 7. Did the School have sufficient cash at year- end to cover the carry over monies? | Yes | |
| **Student Attendance Reporting** | | |
| **If test work performed in questions 3-15 and 18 of this section discloses a net overstatement or understatement of membership and/or absence days, report the net overstatement or understatement in the "Comments" column.** | | |

| | Yes/No | Comments |
|---|---|---|
| 1. Was school in session for at least 180 days or 144 days for schools operating on a 4-day week, or did the governing board adopt a calendar with an equivalent number of minutes of instruction per school year based on a different number of days of instruction and were membership and attendance recorded for each day school was in session? **A.R.S. §§15-902 (H), (I), and (J) and 15-341.01** | Yes | |
| 2. Did the School ensure that: (**Note:** Instruction hours do not include periods of the day in which an instructional program or course of study is not being offered, including, but not limited to, lunch, recesses, home room periods, study hall periods, and early release or late start hours. **ADE's** *School Finance Procedures Manual)* | | |
| a. Kindergarten was in session for at least 356 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| b. Grades 1 through 3 were in session for at least 712 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| c. Grades 4 through 6 were in session for at least 890 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| d. Grades 7 and 8 were in session for at least 1,000 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| e. For high school, a full-time instructional program meets at least 720 hours during the minimum number of days required? **A.R.S. §15-901(A)(2)** | Yes | |
| f. For high school, a full-time instructional program includes at least four subjects, each of which if taught each school day for the minimum number of days required in a school year, would meet a minimum of 123 hours a year; or any number of subjects totaling at least 20 hours per week, prorated for any week with fewer than 5 school days? **A.R.S. §15-901(A)(2)** | Yes | |
| **For Student Attendance Reporting questions 3-15, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. That sample should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested in steps 3-10 and 15 should be selected from the 100th day reporting period.**<br>**In the parentheses provided in questions 3-15, indicate the actual number of transactions tested. If all transactions were tested, indicate such in the "Comments" column.** | | |

| | | |
|---|---|---|
| **For questions 3-5 select at least 3 student attendance records.** | | |
| 3. If the School had an early (pre-)kindergarten program, based upon review of (_0__) early (pre-) kindergarten students' attendance records, did the School only calculate and submit ADM data to ADE for this program if the program was designed to advance students to the first grade at the end of the of the school year? **A.R.S. §15-901(A)(2)(a)(i) and USFRCS Memorandum No. 33** | N/A | No early kindergarten. |
| 4. Based upon review of (__3__) students' attendance records in kindergarten programs with instructional time between 356 and 692 hours a year, were students not in attendance for at least three-quarters of the day counted as being absent? If the instructional time for the year was 692 hours or more, were students not in attendance at least one-half of the day counted as being absent? **A.R.S. §§15-901(A)(2)(a)(i) and 15-901(A)(6)(a)(i)** | Yes | |
| 5. If the School had an early first grade program, based upon review of (_0__) early first grade students' attendance records, did the School calculate and submit ADM for this program as it would for kindergarten in accordance with ADE's *School Finance Procedures Manual*? **A.R.S. §15-901(A)(2)(b)(i) and USFRCS Memorandum No. 33** | N/A | No early first grade. |
| **For questions 6 and 7, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15**<br>6. Based on review of (0) students' attendance records at elementary and junior high schools, in which attendance was based on half days, were students in attendance for less than one-half the day counted as being absent for one full day? Were students in attendance for at least one-half day, but less than three-quarters of a day, counted as being absent for one-half day? Were students in attendance for at least three-quarters of a day counted in attendance for a day? **A.R.S. §15-901(A)(6)(b)(ii)** | N/A | Attendance is based on quarter days. |

| | | |
|---|---|---|
| 7. Based upon review of (_5__) students' attendance records at elementary and junior high schools where attendance was based on quarter days, were students in attendance for more than three-quarters of the day counted in attendance for a day? Were students in attendance for three-quarters of the day or less counted in attendance for each quarter of the day in attendance? **A.R.S. §15-901(A)(6)(b)(i)** | Yes | |
| **For questions 8 through 12, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **3**<br>**1,000-5,000** / **5**<br>**>5,000** / **7**<br>8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for (_0__) students whose attendance was reported in minutes, did the School report minutes of attendance only for actual classroom instruction attended by the students in accordance with ADE's *School Finance Procedures Manual*? | N/A | Attendance is based on quarter days. |
| 9. Based upon review of (_3__) high school students' records whose attendance was reported in terms of absences, for all absence days reported in a 1 month period, did the School report the absences in accordance with the method(s) provided in ADE's *School Finance Procedures Manual*? | Yes | |
| 10. Based upon review of (_3__) high school students' attendance records, did the School prorate the membership of the high school students enrolled in less than four subjects as provided in ADE's *School Finance Procedures Manual*? | Yes | |

| | | |
|---|---|---|
| 11. For schools offering an Arizona Online Instruction (AOI) Program, based upon a review of (_0__) AOI students' attendance records for 4 weeks:<br>a. Was the guardian-approved or School computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI School? **A.R.S. §15-808(E)** | N/A | No AOI program. |
| b. Did the hours reported to ADE agree to the guardian-approved or School computer-generated daily log? | N/A | No AOI program. |
| c. Were all pupils who participated in an AOI Program residents of this State? **A.R.S. §15-808** | N/A | No AOI program. |
| 12. Based upon review of (3) students' attendance records (all grades) for students withdrawn for having 10 consecutive unexcused absences, was the student only counted in membership through the last day of actual attendance? **A.R.S. §15-901(A)(2)** | Yes | |
| **For questions 13 and 14, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Entries/Withdrawals**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15** | | |
| 13. Based upon review of (6) entries: (**Note:** Enrollment forms are not required for continuing students at the same school.) | | |
| a. Were entry dates entered into the School's computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry? | Yes | |
| b. Did the entry date in the computerized attendance system agree to the entry form? | Yes | |
| c. Did the teacher's attendance registers, if used, and other documentation support the entry date in the computerized attendance system? | Yes | |
| d. Did membership for continuing/pre-enrolled students begin with either the first day of actual attendance or the first day that classroom instruction was offered, provided | Yes | |

| | | |
|---|---|---|
| that the students actually attend within the first 10 days of school? For all other students, did membership begin with the first day of actual attendance? **ADE's** ***School Finance Procedures Manual*** | | |
| 14. Based upon review of (6) withdrawals: | | |
| a. Were the withdrawal dates entered into the School's computerized attendance system within 5 working days after the actual date of withdrawal and was documentation maintained to support the date of data entry? (**Note:** "Day of withdrawal" means: a.) the later of the student's withdrawal date or the day the school is notified the student will not be returning; or b.) the 10th day of non-attendance for students withdrawn for having ten consecutive unexcused absences.) | Yes | |
| b. Did the withdrawal date in the attendance system agree to the withdrawal form? (**Note:** If the computerized attendance system requires the school to input the first day of non-attendance for a student to be counted in membership through the last day of actual attendance, the withdrawal date on the system should be the school day following the withdrawal date on the form.) | Yes | |
| c. Did the teachers' attendance registers, if used, and other supporting documentation support the withdrawal date in the computerized attendance system? | Yes | |
| d. Was an Official Notice of Pupil Withdrawal form prepared and retained for each withdrawal and signed by a school administrator? **A.R.S. §15-827** | Yes | |
| **For question 15, use the following sample sizes:**<br>**SCHOOLWIDE ADM** — **Days**<br>**<1,000** — **3**<br>**1,000-5,000** — **5**<br>**>5,000** — **7** | | |
| 15. Based upon review of (3) days for various campuses, grades, and classes in the computerized attendance system, did the student absences from each day agree to the teachers' attendance registers, absence slips, or other supporting documentation, if used? | Yes | |

| | | |
|---|---|---|
| 16. Did the school have adequate electronic or manual controls in place to ensure that any changes to the original record of student attendance data were properly authorized and documented, including the names or identification numbers of the persons making and authorizing the changes? | Yes | |
| 17. Was the School's membership/absence information submitted to ADE electronically at least once every 20 school days through the last day of instruction (with the first 20 day period beginning the first day of school or the opening of SAIS for current fiscal year data submission, whichever is later)? **A.R.S. §15-1042(H)** | Yes | |
| 18. Based upon review of the School's 40th and 100th day information uploaded to ADE, did the membership and absences agree with the School's computerized attendance system records? (**Note:** For an AOI program, review year-end attendance information.) | Yes | |
| | **Yes/No** | **Comments** |
| **Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)** | | |
| 1. Beginning July 29, 2010, did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations? **Laws 2010, Chapter 88** ? | Yes | |
| 2. Beginning July 29, 2010, did the school post all public meeting notices on its website? **Laws 2010, Chapter 88** | Yes | |
| 3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting? | Yes | |
| 4. Were notices and agenda of public meetings posted at least 24 hours before the meeting? | Yes | |
| 5. Were written minutes prepared or a recording made of Governing Body meetings? | Yes | |
| **Insurance Requirements A.R.S. §15-183(M)** | | |
| Does the school have the required insurance for liability and property loss? | Yes | |

| | | |
|---|---|---|
| **Tuition A.R.S. §15-185 (B)(6) (See also Attorney General Opinion I98-007) and Laws 2010, 7th S.S., Ch. 8, Sec. 16** | | |
| Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents] and Laws 2010, 7th S.S., Ch. 8, Sec. 16 [full-day kindergarten for fiscal year 2011 only]? | Yes | |
| **Records Management** | | |
| 1. Did the school retain records in accordance with the Records Retention and Disposition for Arizona School Districts Manual published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? | Yes | |
| 2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)? | Yes | |

This Questionnaire was completed in accordance with the minimum audit standards as set forth in the instructions on pages 2 and 3.

| | |
|---|---|
| Klecka, Wilkins & Klecka | February 27, 2012 |
| Audit Firm | Date |
| | Partner |
| Preparer's Signature (Audit Firm Representative) | Title |

**Arizona State Board for Charter Schools**

**Legal Compliance Questionnaire**

**Choice Education and Development Corporation**

**Sequoia Village School**

**Fiscal Year Ended June 30, 2011**

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# Legal Compliance Questionnaire

| Questions/Subject Area | Yes/No | Comments |
|---|---|---|
| **Personnel** | | |
| 1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512(H)** | Yes | |
| (QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.)<br><br>2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board's website prior to completing these questions)**A.R.S. §15-183(C)(5):**<br><br>a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date? | N/A | All required personnel had FCCs. |
| b. Did DPS receive the application prior to the hire date? | N/A | All required personnel had FCCs. |
| c. Prior to placement, did the school do all of the following?<br><br>i) Document the necessity for hiring/placing the individual prior to receiving a FCC? | N/A | All required personnel had FCCs. |
| ii) Obtain statewide criminal history information on the individual? | N/A | All required personnel had FCCs. |
| iii) Obtain references from the applicant's current and previous employers? | N/A | All required personnel had FCCs. |
| 3. Did the charter school maintain up-to-date fingerprints of all governing board members as of the testing date? **Charter Contract**[1] | Yes | |
| 4. Were all other personnel fingerprint checked as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512** | Yes | |
| 5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of resume information for all employees who provide instruction to pupils? **A.R.S. §15-183 (F)** | Yes | |

[1] Specific contract cites could not be provided as term references vary per contract year.

| | Yes/No | Comments |
|---|---|---|
| **Required Filings** | | |
| 1. Is the school in good standing with the following regulatory bodies:<br><br>a. Internal Revenue Service **U.S.C. Title 26** | | |
| i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service? | N/A | Response was Yes. |
| iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was not Yes. |
| b. Arizona Department of Revenue **A.R.S. §43-401 and §43-1111** | | |
| i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue? | N/A | Response was Yes. |
| iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was not Yes. |
| c. Arizona Department of Economic Security **A.R.S. § 23-721 et seq.** | | |
| i. State unemployment contributions requirements for the audited fiscal year? | Yes | |
| ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security? | N/A | Response was Yes. |
| iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | Response was not Yes. |
| d. Corporation Commission (e.g., annual report)? **Charter** | Yes | |

| | | |
|---|---|---|
| **Contract** | | |
| 2. Was a copy of the adopted budget signed by the Governing Board and filed with the Superintendent of Public Instruction by July 18th? **A.R.S. §15-905 (B) and (E) and §15-183 (E)(6)** | Yes | |
| 3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15th? **A.R.S. §15-183 (E) (6) and 15-904 (A)** | Yes | |
| **Special Education** | | |
| 1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education? | Yes | |
| 2. Does the school conduct 45 day screenings on all new students? **AAC R7-2-401** | Yes | |
| 3. Are evaluations and IEPs on file for special education students? **34 CFR 300.341-350 and 300.531-536** | Yes | |
| **Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum #44** | | |
| 1. Did the School properly allocate Classroom Site Fund receipts among the following projects: 1011—Base Salary (20%), 1012—Performance Pay (40%), and 1013—Other (40%)? | Yes | |
| 2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses? | Yes | |
| 3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses? | Yes | |
| 4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums? | Yes | |
| 5. Did the School use Classroom Site monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance for Classroom Site Projects.) | Yes | |
| 6. If the School had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years? | Yes | |
| 7. Did the School have sufficient cash at year- end to cover the carry over monies? | Yes | |
| **Student Attendance Reporting** | | |
| **If test work performed in questions 3-15 and 18 of this section discloses a net overstatement or understatement of membership and/or absence days, report the net overstatement or understatement in the "Comments" column.** | | |

| | Yes/No | Comments |
|---|---|---|
| 1. Was school in session for at least 180 days or 144 days for schools operating on a 4-day week, or did the governing board adopt a calendar with an equivalent number of minutes of instruction per school year based on a different number of days of instruction and were membership and attendance recorded for each day school was in session? **A.R.S. §§15-902 (H), (I), and (J) and 15-341.01** | Yes | |
| 2. Did the School ensure that: (**Note:** Instruction hours do not include periods of the day in which an instructional program or course of study is not being offered, including, but not limited to, lunch, recesses, home room periods, study hall periods, and early release or late start hours. **ADE's** *School Finance Procedures Manual*) | | |
| a. Kindergarten was in session for at least 356 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| b. Grades 1 through 3 were in session for at least 712 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| c. Grades 4 through 6 were in session for at least 890 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| d. Grades 7 and 8 were in session for at least 1,000 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| e. For high school, a full-time instructional program meets at least 720 hours during the minimum number of days required? **A.R.S. §15-901(A)(2)** | N/A | No high school. |
| f. For high school, a full-time instructional program includes at least four subjects, each of which if taught each school day for the minimum number of days required in a school year, would meet a minimum of 123 hours a year; or any number of subjects totaling at least 20 hours per week, prorated for any week with fewer than 5 school days? **A.R.S. §15-901(A)(2)** | N/A | No high school. |
| **For Student Attendance Reporting questions 3-15, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. That sample should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested in steps 3-10 and 15 should be selected from the 100th day reporting period.**<br>**In the parentheses provided in questions 3-15, indicate the actual number of transactions tested. If all transactions were tested, indicate such in the "Comments" column.** | | |

| | | |
|---|---|---|
| **For questions 3-5 select at least 3 student attendance records.** | | |
| 3. If the School had an early (pre-)kindergarten program, based upon review of (_0__) early (pre-) kindergarten students' attendance records, did the School only calculate and submit ADM data to ADE for this program if the program was designed to advance students to the first grade at the end of the of the school year? **A.R.S. §15-901(A)(2)(a)(i) and USFRCS Memorandum No. 33** | N/A | No early kindergarten. |
| 4. Based upon review of (3) students' attendance records in kindergarten programs with instructional time between 356 and 692 hours a year, were students not in attendance for at least three-quarters of the day counted as being absent? If the instructional time for the year was 692 hours or more, were students not in attendance at least one-half of the day counted as being absent? **A.R.S. §§15-901(A)(2)(a)(i) and 15-901(A)(6)(a)(i)** | Yes | |
| 5. If the School had an early first grade program, based upon review of (_0__) early first grade students' attendance records, did the School calculate and submit ADM for this program as it would for kindergarten in accordance with ADE's *School Finance Procedures Manual*? **A.R.S. §15-901(A)(2)(b)(i) and USFRCS Memorandum No. 33** | N/A | No early first grade. |
| **For questions 6 and 7, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15**<br>6. Based on review of (6) students' attendance records at elementary and junior high schools, in which attendance was based on half days, were students in attendance for less than one-half the day counted as being absent for one full day? Were students in attendance for at least one-half day, but less than three-quarters of a day, counted as being absent for one-half day? Were students in attendance for at least three-quarters of a day counted in attendance for a day? **A.R.S. §15-901(A)(6)(b)(ii)** | Yes | |

| | | |
|---|---|---|
| 7. Based upon review of (6) students' attendance records at elementary and junior high schools where attendance was based on quarter days, were students in attendance for more than three-quarters of the day counted in attendance for a day? Were students in attendance for three-quarters of the day or less counted in attendance for each quarter of the day in attendance? **A.R.S. §15-901(A)(6)(b)(i)** | N/A | Attendance based on half days only. |
| **For questions 8 through 12, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **3**<br>**1,000-5,000** / **5**<br>**>5,000** / **7**<br>8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for (0) students whose attendance was reported in minutes, did the School report minutes of attendance only for actual classroom instruction attended by the students in accordance with ADE's *School Finance Procedures Manual*? | N/A | No attendance reported in minutes. |
| 9. Based upon review of (0) high school students' records whose attendance was reported in terms of absences, for all absence days reported in a 1 month period, did the School report the absences in accordance with the method(s) provided in ADE's *School Finance Procedures Manual*? | N/A | No high school students. |
| 10. Based upon review of (0) high school students' attendance records, did the School prorate the membership of the high school students enrolled in less than four subjects as provided in ADE's *School Finance Procedures Manual*? | N/A | No high school students. |

| | | |
|---|---|---|
| 11. For schools offering an Arizona Online Instruction (AOI) Program, based upon a review of (0) AOI students' attendance records for 4 weeks:<br>a. Was the guardian-approved or School computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI School? **A.R.S. §15-808(E)** | N/A | No AOI program. |
| b. Did the hours reported to ADE agree to the guardian-approved or School computer-generated daily log? | N/A | No AOI program. |
| c. Were all pupils who participated in an AOI Program residents of this State? **A.R.S. §15-808** | N/A | No AOI program. |
| 12. Based upon review of (_0_) students' attendance records (all grades) for students withdrawn for having 10 consecutive unexcused absences, was the student only counted in membership through the last day of actual attendance? **A.R.S. §15-901(A)(2)** | N/A | No 10 consecutive unexcused absences. |
| **For questions 13 and 14, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Entries/Withdrawals**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15** | | |
| 13. Based upon review of (6) entries: (**Note:** Enrollment forms are not required for continuing students at the same school.) | | |
| a. Were entry dates entered into the School's computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry? | Yes | |
| b. Did the entry date in the computerized attendance system agree to the entry form? | Yes | |
| c. Did the teacher's attendance registers, if used, and other documentation support the entry date in the computerized attendance system? | Yes | |
| d. Did membership for continuing/pre-enrolled students begin with either the first day of actual attendance or the first day that classroom instruction was offered, provided | Yes | |

| | | |
|---|---|---|
| that the students actually attend within the first 10 days of school? For all other students, did membership begin with the first day of actual attendance? **ADE's** ***School Finance Procedures Manual*** | | |
| 14. Based upon review of (6) withdrawals: | | |
| a. Were the withdrawal dates entered into the School's computerized attendance system within 5 working days after the actual date of withdrawal and was documentation maintained to support the date of data entry? (**Note:** "Day of withdrawal" means: a.) the later of the student's withdrawal date or the day the school is notified the student will not be returning; or b.) the 10th day of non-attendance for students withdrawn for having ten consecutive unexcused absences.) | Yes | |
| b. Did the withdrawal date in the attendance system agree to the withdrawal form? (**Note:** If the computerized attendance system requires the school to input the first day of non-attendance for a student to be counted in membership through the last day of actual attendance, the withdrawal date on the system should be the school day following the withdrawal date on the form.) | Yes | |
| c. Did the teachers' attendance registers, if used, and other supporting documentation support the withdrawal date in the computerized attendance system? | Yes | |
| d. Was an Official Notice of Pupil Withdrawal form prepared and retained for each withdrawal and signed by a school administrator? **A.R.S. §15-827** | Yes | |
| **For question 15, use the following sample sizes:**<br>**SCHOOLWIDE ADM** — **Days**<br>**<1,000** — **3**<br>**1,000-5,000** — **5**<br>**>5,000** — **7** | | |
| 15. Based upon review of (3) days for various campuses, grades, and classes in the computerized attendance system, did the student absences from each day agree to the teachers' attendance registers, absence slips, or other supporting documentation, if used? | Yes | |

| | | |
|---|---|---|
| 16. Did the school have adequate electronic or manual controls in place to ensure that any changes to the original record of student attendance data were properly authorized and documented, including the names or identification numbers of the persons making and authorizing the changes? | Yes | |
| 17. Was the School's membership/absence information submitted to ADE electronically at least once every 20 school days through the last day of instruction (with the first 20 day period beginning the first day of school or the opening of SAIS for current fiscal year data submission, whichever is later)? **A.R.S. §15-1042(H)** | Yes | |
| 18. Based upon review of the School's 40th and 100th day information uploaded to ADE, did the membership and absences agree with the School's computerized attendance system records? (**Note:** For an AOI program, review year-end attendance information.) | Yes | |
| | **Yes/No** | **Comments** |
| **Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)** | | |
| 1. Beginning July 29, 2010, did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations? **Laws 2010, Chapter 88** ? | Yes | |
| 2. Beginning July 29, 2010, did the school post all public meeting notices on its website? **Laws 2010, Chapter 88** | Yes | |
| 3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting? | Yes | |
| 4. Were notices and agenda of public meetings posted at least 24 hours before the meeting? | Yes | |
| 5. Were written minutes prepared or a recording made of Governing Body meetings? | Yes | |
| **Insurance Requirements A.R.S. §15-183(M)** | | |
| Does the school have the required insurance for liability and property loss? | Yes | |

| | | |
|---|---|---|
| **Tuition A.R.S. §15-185 (B)(6) (See also Attorney General Opinion I98-007) and Laws 2010, 7th S.S., Ch. 8, Sec. 16** | | |
| Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents] and Laws 2010, 7th S.S., Ch. 8, Sec. 16 [full-day kindergarten for fiscal year 2011 only]? | Yes | |
| **Records Management** | | |
| 1. Did the school retain records in accordance with the Records Retention and Disposition for Arizona School Districts Manual published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? | Yes | |
| 2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)? | Yes | |

This Questionnaire was completed in accordance with the minimum audit standards as set forth in the instructions on pages 2 and 3.

| | |
|---|---|
| Klecka, Wilkins & Klecka | February 27, 2012 |
| Audit Firm | Date |
| | Partner |
| Preparer's Signature (Audit Firm Representative) | Title |

**EdKey, Inc. and Subsidiary**
**Mesa, Arizona**

**Report**

**June 30, 2011**

**EdKey, Inc. and Subsidiary**
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June 30, 2011


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KLECKA, WILKINS & KLECKA
• CERTIFIED PUBLIC ACCOUNTANTS •

Daniel E. Klecka, CPA
Harry F. Wilkins III, CPA
Michael J. Klecka, CPA

635 East Maryland Avenue
Phoenix, Arizona 85012

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors
EdKey, Inc. and Subsidiary
Mesa, Arizona

We have audited the accompanying consolidated statement of financial position of EdKey, Inc. and subsidiary (an Arizona nonprofit corporation) (collectively, the School) as of June 30, 2011, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EdKey, Inc. and subsidiary as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, on our consideration of the School's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of functional expenses on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards on pages 15-17 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular* A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Klecka, Wilkins & Klecka

Phoenix, Arizona
February 27, 2012

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www.kwkcpa.com

**EdKey, Inc. and Subsidiary**

Consolidated Statement of Financial Position

June 30, 2011

## ASSETS

| | |
|---|---|
| **Current Assets** | |
| Cash and Cash Equivalents | $ 1,253,551 |
| Grants and Funds Receivable (Net of $0 Allowance for Doubtful Accounts) | 146,965 |
| Prepaid Expenses | 41,443 |
| Bond Reserves and Funds | 695,370 |
| **Total Current Assets** | 2,137,329 |
| **Property and Equipment, Net** | 10,741,627 |
| **Other Assets** | |
| Bond Reserves and Funds | 1,932,356 |
| Bond Issuance Fees, Net of Amortization | 1,158,273 |
| **Total Other Assets** | 3,090,629 |
| **TOTAL ASSETS** | $ 15,969,585 |

## LIABILITIES AND NET ASSETS

| | |
|---|---|
| **Current Liabilities** | |
| Accounts Payable | $ 468,643 |
| Accrued Expenses | 456,587 |
| Unearned Revenue | 114,842 |
| Due to Affiliate | 394,394 |
| Accrued Expenses Due to Affiliate | 1,072,789 |
| **Total Current Liabilities** | 2,507,255 |
| **Long-Term Liabilities** | |
| Bond Notes Payable | 13,450,000 |
| **Total Liabilities** | 15,957,255 |
| **Net Assets** | |
| Unrestricted (Deficit) | (179,974) |
| Temporarily Restricted | 192,304 |
| **Total Net Assets** | 12,330 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 15,969,585 |

See Accompanying Notes and Auditor's Report

**EdKey, Inc. and Subsidiary**

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2011

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Revenues** | | | |
| State of Arizona Equalization Funds | $ 6,818,259 | $ - | $ 6,818,259 |
| Classroom Site Fund | - | 294,786 | 294,786 |
| Instructional Improvement Fund | 45,479 | - | 45,479 |
| Federal and State Grant Revenues | 987,968 | - | 987,968 |
| Administrative Services | 641,190 | - | 641,190 |
| E-Rate Indirect Reimbursements | 234,134 | - | 234,134 |
| Food Service | 398,974 | - | 398,974 |
| Public Donations | 730,585 | - | 730,585 |
| Other Revenue | 26,979 | - | 26,979 |
| Net Assets Released From Restrictions | 289,717 | (289,717) | - |
| **Total Revenues** | 10,173,285 | 5,069 | 10,178,354 |
| **Expenses** | | | |
| Program Services | 6,828,934 | - | 6,828,934 |
| General and Administrative | 3,369,963 | - | 3,369,963 |
| **Total Expenses** | 10,198,897 | - | 10,198,897 |
| **Change in Net Assets Before Provision for Income Tax** | (25,612) | 5,069 | (20,543) |
| **Income Tax Expense** | (4,865) | - | (4,865) |
| **Change in Net Assets** | (30,477) | 5,069 | (25,408) |
| **Net Assets (Deficit) at Beginning of Year** | (149,497) | 187,235 | 37,738 |
| **Net Assets (Deficit) at End of Year** | $ (179,974) | $ 192,304 | $ 12,330 |

See Accompanying Notes and Auditor's Report

**EdKey, Inc. and Subsidiary**

Consolidated Statement of Cash Flows

Year Ended June 30, 2011

| | |
|---|---|
| **Cash Flows Provided (Used) by Operating Activities:** | |
| Decrease in Net Assets | $ (25,408) |
| Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities: | |
| Depreciation | 390,522 |
| Amortization | 26,324 |
| Changes in Assets and Liabilities: | |
| Grants and Funds Receivable | 79,587 |
| Prepaid Expenses | 16,632 |
| Deposits | 34,038 |
| Accounts Payable | 250,233 |
| Unearned Revenue | 114,842 |
| Due or Accrued to Affiliate | 414,323 |
| Payroll and Related Accruals | (140,294) |
| **Net Cash Provided by Operating Activities** | 1,160,799 |
| **Cash Flows Used by Investing Activities:** | |
| Purchase of Property and Equipment | (10,046,628) |
| **Cash Flows Provided (Used) by Capital and Related Financing Activities:** | |
| Bond Issuance Fees | (1,184,597) |
| Establishment of Bond Funds | (2,627,726) |
| Proceeds from Bond Notes | 13,450,000 |
| **Net Cash Provided by Capital and Related Financing Activities** | 9,637,677 |
| **Net Change in Cash and Cash Equivalents** | 751,848 |
| **Cash and Cash Equivalents, June 30, 2010** | 501,703 |
| **Cash and Cash Equivalents, June 30, 2011** | $ 1,253,551 |
| ***Supplemental Information:*** | |
| Cash Paid for Interest | $ 841,329 |
| Cash Paid for Income Taxes | $ 19,655 |

See Accompanying Notes and Auditor's Report

## *NOTE 1 – NATURE OF OPERATIONS:*

EdKey, Inc. was formed as an Arizona nonprofit corporation in April 2005 and assumed the assets, liabilities, and operations of four existing Arizona charter schools on November 1, 2005. EdKey, Inc. and its wholly-controlled for-profit subsidiary, EdKey Management, Inc. (collectively, EdKey or "the School") combine to operate several charter school campuses and provide administrative services to other charter schools. The School operates under three charter contracts with the Arizona State Board for Charter Schools (ASBCS), which mandates policy and operational guidelines. The charters are valid for fifteen years, with all charters expiring in July and August of 2013. The charters may be renewed for successive twenty year time periods if the ASBCS deems that the School is in compliance with its charter and statutory provisions. The School provides educational services to approximately 1,315 students in kindergarten through twelfth grade in Mayer, Mesa, Phoenix, Peoria, Maricopa and Tempe, Arizona, and is funded primarily through state equalization assistance.

## *NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:*

### Basis of Presentation

The accompanying consolidated financial statements use the accrual method of accounting, with revenues recorded when earned, and expenses recorded at the time liabilities are incurred. All significant intercompany accounts and transactions between EdKey, Inc. and its subsidiary have been eliminated in consolidation.

The consolidated financial statements use the accrual method of accounting and the presentation follows the recommendations for the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) in FASB ASC 958. Under FASB ASC 958, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The School has evaluated subsequent events through February 27, 2012, which is prior to the date that the financial statements were issued.

### Cash Equivalents

For purposes of the statement of cash flows, the School considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

### Grants and Funds Receivable

The School recognizes income from services performed for other schools and from funds provided by the state of Arizona in connection with its charter agreements. Due to the concentrated nature of the School's income sources and historical collectibility trends, the School does not provide an allowance for grants or funds receivable.

### Property and Equipment

Leasehold improvements with a cost of $3,000 or more and furniture and equipment with both a cost of $300 or more and an estimated life of one year or more are capitalized. Assets are stated at cost or fair market value at date of gift, if contributed. Depreciation of furniture and equipment and leasehold improvements are provided on a straight-line basis over the estimated useful lives of three to fifteen years. Interest expense incurred during construction of buildings and equipment is capitalized until the assets are placed into service. Maintenance and repairs are charged to expense as incurred. The costs of additions and improvements are capitalized and depreciated over the remaining useful lives of the assets. The costs and accumulated depreciation of assets sold or retired are removed from the accounts and any gain or loss is recognized in the year of disposal.

### Revenue Recognition

The School recognizes revenue as earned calculated using a "base support level" determined by the Arizona Department of Education. The "base support level" is a calculation using student counts as a basis for allocating equalization funds to the School such that the School is funded at an amount approximating the amount which public schools in the same district receive on a per pupil basis. State equalization funds are allocated on a fiscal year that ends June 30 of each year and are paid to the School on a periodic basis throughout the school year.

### Contributions

The School follows FASB ASC 958 for contributions. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a donor restriction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restriction. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

### *NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):*

**Net Assets**
Net assets of the School consist of two types as follows: Unrestricted net assets - net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation; and temporarily restricted net assets – those net assets whose use by the School has been limited by donors to either (a) later periods of time or after specified dates or (b) to specific purposes.

**Functional Expenses**
Expenses are charged directly to program or general and administrative categories based on direct expenditures incurred. All expenditures not directly chargeable are allocated based on personnel activity.

**Advertising**
Advertising costs are expensed as incurred. Advertising expense was $10,595 for the year ended June 30, 2011.

**Donated Services**
A substantial number of volunteers (primarily parents of attending students) have donated many hours of labor to the schools; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

**Use of Estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *NOTE 3 – RESTRICTED CASH:*

The School receives Arizona Classroom Site Fund (CSF) monies that are restricted under A.R.S. §15-977 solely for use at school sites. CSF monies are received from the Arizona Department of Education (ADE). During the year ended June 30, 2011, the School recognized CSF income of $294,786 from ADE. At June 30, 2011, the School had on hand $167,045 of CSF cash from all sources. Of the total, $141,572 was available for teacher compensation increases based on performance and employment related expenses; and $25,473 was for maintenance and operations, including class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums. The School had $25,259 of classroom site funds receivable from all sources at June 30, 2011.

### *NOTE 4 – PROPERTY AND EQUIPMENT:*

Depreciation expense for the year ended June 30, 2011 totaled $390,522. The School capitalized interest expense of $841,329 during the year. The interest is included in construction in progress and will be depreciated with buildings when construction is completed. Property and equipment consisted of the following at June 30, 2011:

| | |
|---|---|
| Land | $ 1,856,856 |
| Buildings and Improvements | 372,433 |
| Construction in Progress | 7,757,057 |
| Equipment | 1,477,437 |
| | 11,463,783 |
| (Less) Accumulated Depreciation | (722,156) |
| Property and Equipment, Net | $ 10,741,627 |

### *NOTE 5 – BOND RESERVES:*

On November 1, 2010, the School entered into a note agreement under which the note issuer also issued registered bonds to investors. Certain proceeds of funds issued to the School in conjunction with the note agreement are held by the trustee under an indenture of trust agreement, but are considered assets of the School. The following schedule summarizes total bond assets at June 30, 2011:

| Bond Reserve Asset | Amount |
|---|---|
| Current Bond Assets: | |
| Capital Interest Fund | $ 184,581 |
| Operating Reserve Fund | 500,482 |
| Expense Fund | 10,295 |
| Revenue Fund | 12 |
| | 695,370 |
| Long-Term Bond Assets: | |
| Assessment Fund | 50,024 |
| Debt Service Reserve Fund | 1,127,985 |
| Project Fund | 754,347 |
| | 1,932,356 |
| Total Bond Reserve Assets | $ 2,627,726 |

***NOTE 5 – BOND RESERVES (Continued):***

Bond reserves consist of the following accounts:

**Capital Interest Fund**
The capital interest fund accumulates monthly interest payments made by the School until the funds are distributed to bondholders twice annually.

**Assessment Fund**
The assessment fund is funded by the School rather than by bond proceeds. The fund is held by the trustee to make payments on assessments in accordance with an easement granted by Pinal County, and unused funds will be returned no later than the date the bond obligation is fulfilled.

**Debt Service Reserve (DSR) Fund**
The DSR fund was set up by the trustee to make payments on the bond when monies in the bond fund are insufficient to make the required semi-annual payments. Such payments are made by the trustee in order to continue to service the bond. The DSR Fund is not immediately available to the School; the opening balance was placed in the fund by the trustee, and any remaining balance will be repaid when the bond matures.

**Project Fund**
The project fund is created with bond proceeds to pay for capital projects such as land purchases and new campus facilities, and disbursed by the trustee once projects are completed in accordance with the provisions of the bond, note, and trust agreements.

**Revenue Fund**
The revenue fund receives state equalization payments on behalf of the School. The majority of each payment is then disbursed to the School once the required amount is transferred to the bond fund, where the trustee makes semi-annual interest payments and annual sinking fund payments on bond obligations.

**Operating Reserve Fund**
The operating reserve fund is funded to pay operating expenses at the request of the School when state payments are unavailable or when expenses exceed budgeted expenses. All amounts drawn from the operating reserve fund are segregated from monthly state payments by the trustee and returned to the fund ratably over a twelve month period. If the fund balance at any time is less than the greater of the original operating reserve requirement of $500,000 or 15% of the School's annual budgeted expenses, the School is restricted from various transfers of its property and equipment. If necessary, portions of the fund may be transferred to the bond fund for payment of principal, premium, and interest.

***NOTE 6 – BOND NOTES PAYABLE:***

During the year, the School finalized two loan and promissory note agreements dated November 1, 2010 with the Industrial Development Authority of Pima County ("Pima IDA"). Concurrent with the loan and note agreements, Pima IDA issued "Series 2010 Bonds" to the public. The bonds and notes are labeled Series 2010A and 2010B and have original principal amounts of $5,450,000 and $8,000,000, and maturity dates of September 1, 2030 and September 1, 2040, respectively. US Bank, N.A. maintains several cash and short-term investment accounts as the bond trustee. Under the terms of the loan agreement, the School is required to make an irrevocable pledge of substantially all of its monthly state equalization revenues toward payment of its debt obligations through the various accounts held in trust. Once the trustee collects the monthly note obligation, remaining state revenues are distributed to the School.

The stated interest rate on the bond notes is 6.875% annually for Series 2010A and, 7.25% annually for Series 2010B. Principal payments are disbursed from the bond fund annually, and interest payments are disbursed semi-annually until maturity. The loan is secured by the assets and continuing revenues of the School. In addition to making consistent payments toward interest and principal due, the School has agreed to comply with all charter school laws, maintain non-profit status and appropriate title and liability insurance, and submit to an annual financial statement audit. If the School were to default materially on its obligations, the notes would be immediately due and payable.

Principal payments on the bond notes are due annually to the bond fund as follows:

| **Year Ending June 30:** | |
|---|---|
| 2012 | $ - |
| 2013 | - |
| 2014 | - |
| 2015 | 150,000 |
| 2016 | 215,000 |
| Thereafter | 13,085,000 |
| Total Bond Note Principal Payments | $ 13,450,000 |

### *NOTE 6 – BOND NOTES PAYABLE (Continued):*

The School is required to maintain a minimum debt service coverage ratio of 1.20. The outstanding debt from the bond notes was incurred during the fiscal year, while interest expense was incurred from the inception of the note to year end. Interest was paid during the year from bond proceeds used to fund the capital interest fund. Because interest expense was paid only during the final eight months of the year from the inception of the bonds and corresponding notes, the ratio is not expected to be comparable to future years. The debt service coverage ratio is calculated as follows for the year ended June 30, 2011:

| | |
|---|---|
| Bond Debt, Net, June 30, 2011 | $ 13,450,000 |
| Bond Debt Service | |
| Series 2010A and 2010B, | |
| Year Ended June 30, 2011 | $ 533,034 |
| Pledged Revenues: | |
| State Equalization | 6,818,259 |
| Other | 3,360,095 |
| Total | 10,178,354 |
| Expenses: | |
| Expenses, Less Debt Service | 10,194,304 |
| Debt Service | - |
| Total | 10,194,304 |
| Decrease in Net Assets | (15,950) |
| Adjustment: Amortization | 26,324 |
| Adjustment: Depreciation | 390,527 |
| Adjustment: Capitalized Interest | 533,034 |
| Operating Income | 933,935 |
| Divide by Total Debt Service | 533,034 |
| Debt Service Coverage Ratio | 1.75 |

### *NOTE 7 – BOND FEES:*

The School incurred legal and administrative fees upon issuance of the bond. These fees are recorded as School assets and amortized over a period of thirty years using the straight-line method in order to match the expenses to the period in which the benefit occurs. During the year ended June 30, 2011, the School recognized issuance fees of $26,324.

The School expects amortization expense of $39,487 for each fiscal year until fulfillment of the bond obligation in 2040.

### *NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES:*

**Pathfinder Academy**

The School maintains a month-to-month contract for School facilities in Mesa with a School employee who exercises substantial control over campus operations. The School includes property tax assessments in lease expense. During the year ended June 30, 2011, the School paid $3,833 in monthly rent, and $48,701 in total expense under the terms of the lease. If the contract with Pathfinder Academy is terminated during the Academy's school year, campus operations could be significantly affected.

**Sequoia Redwood Charter School**

The School leases a property in Peoria for School facilities. The lease expires on June 30, 2013 and requires minimum monthly payments of $10,331 inclusive of taxes through expiration. Required minimum payments under the lease total $123,738 annually through lease expiration. The School is required to pay taxes, liability insurance premiums, and repairs on the facilities during the lease term. Monthly payments are subject contingently to annual increases calculated as a multiple of the CPI. The lease contract may be renewed by the School for two additional periods of five and fifteen years, respectively. During the year ended June 30, 2011, the School paid $119,544 under the terms of the lease.

**Children First Academy – Phoenix**

The School entered into a lease contract for School facilities in Phoenix through June 30, 2011. The lease required monthly payments of $14,305 through the termination of the lease. Effective January 2011, the School renewed the lease through June 2014. The renewal amended the lease payment through the end of December 2012 to $13,000. Monthly payments during the final eighteen months of the extended lease range from $15,225 to $16,000. The lease may be terminated by either party without penalty by providing notice of ninety days prior to the end of each fiscal year. During the year ended June 30, 2011, the School paid $165,135 in rental expense under the terms of the lease.

### *NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued):*

**Children First Academy – Tempe**

The School entered into a sublease contract for School facilities in Tempe through June 30, 2011. The lease requires monthly payments of $12,500 through the termination of the lease. The School is required to maintain liability insurance for the facilities during the lease term. During the year ended June 30, 2011, the School paid $150,000 in rental expense under the terms of the lease and agreed to amend its lease agreement by extending the current terms of the lease through June 30, 2016.

**Sequoia Pathway Academy**

The School entered into a sublease contract with Sequoia Choice Schools LLLP ("Sequoia Choice") and the landlord of Sequoia Choice for land in Maricopa through June 30, 2011. On November 10, 2010, the School purchased approximately half of the land subject to the original lease, which terminated the School's lease with Sequoia Choice. The original landlord leased the remaining land to the School through the termination date. During the year ended June 30, 2011, the School paid $490,967 in rental expense under the terms of the leases.

**Sequoia Ranch School - Mayer**

The School owns approximately half of its campus facilities in Mayer and rents the remaining portion under an agreement with a leasing company whose manager is the manager of an entity that was related to the School at lease inception. Although the School is no longer related to the leasing company, the original expired lease continued on a monthly basis. During the year, the School recognized expense of $15,000 for the facilities, the balance of which was outstanding at June 30, 2011. The School purchased the balance of the property in Mayer on February 2, 2012, as discussed in Note 13.

The following is a schedule by years of future minimum lease payments for all operating leases except those with terms of a month or less as of June 30, 2011:

| Year Ending June 30: | | |
|---|---|---|
| 2012 | $ | 429,738 |
| 2013 | | 443,088 |
| 2014 | | 246,000 |
| 2015 | | 150,000 |
| 2016 | | 150,000 |
| Total Minimum Payments Required | $ | 1,418,826 |

**Compliance**

The School's compliance with certain laws and regulations is subject to review by its sponsor. Such reviews could result in an adjustment of state equalization assistance.

**Litigation**

The School is contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. In the opinion of the School's management, adverse decisions that might result, to the extent not covered by insurance, would not have a material effect on the financial statements. No provision has been made in the financial statements for possible losses of this nature.

### *NOTE 9 – RETIREMENT PLAN:*

**Plan Description**

The School has chosen to participate in the Arizona State Retirement System (ASRS), a cost-sharing, multiple-employer defined benefit pension plan. All School employees are enrolled automatically in the plan. Benefits are determined actuarially as required by state statute and are approved by the ASRS board of trustees. ASRS benefits provide retirement and long-term disability benefits.

**Funding Policy**

The ASRS board of trustees establishes and may amend active plan members' and the School's contribution rate. Active plan members and the School were each required by participation in the plan to contribute at the approved rate of 9.85 percent (9.6 percent retirement and .25 percent long-term disability for the year ended June 30, 2011) of the members' annual covered payroll. The School's contribution to the System for the year ended June 30, 2011 was $347,560, which was equal to the required contribution for the year.

### *NOTE 10 – CURRICULUM AND ADMINISTRATIVE AGREEMENTS:*

**Curriculum Services**

Sequoia Choice provides curriculum services and materials to the School. During the year ended June 30, 2011, the School recognized $13,108 in curriculum services expense from services provided by Sequoia Choice.

At June 30, 2011, the School accrued a liability of $56,493 for revenue prepaid to the School by Sequoia Choice for future services and a liability of $49,027 due to Sequoia Choice for services provided to the School.

## *NOTE 10 – CURRICULUM AND ADMINISTRATIVE AGREEMENTS (Continued):*

**Licensing and Services Agreement – Related Party**

During the year ended June 30, 2011, the School recognized expenses reported in administrative fees and rental of property and equipment of $1,542,863 for various services provided by Choice Education and Development Corporation (CEDC) under the terms of a management and licensing agreement. The board members of the School are also board members of CEDC. Technical services and certain administrative support services are billed to the School based on the number of students attending, while general administrative services are billed based on the gross revenue of the School. At June 30, 2011, the School owed CEDC $1,470,107, which is included on the statement of financial position as amounts due and accrued to affiliate. The School makes periodic payments to CEDC to settle outstanding obligations. During the year ended June 30, 2011, the School made cash payments of $593,176 to CEDC, inclusive of administrative services, technical and other support services, and repayments for services performed on behalf of the School and billed by CEDC.

**Services Agreement**

The School provides services under contract to Sequoia Choice Schools LLLP ("Sequoia Choice"). At the inception of the current services agreement in 2009, the School and Sequoia Choice were related by common management. Although the School provides substantial administrative services to Sequoia Choice, the School is no longer related to Sequoia Choice by common directors or common control. Under the service contract, the School provides teaching, accounting, financial and student reporting, and other administrative and management services in exchange for a monthly management fee of $40,000 but not less than eight percent of the gross revenues of Sequoia Choice. The School bills additional amounts to Sequoia Choice for payments the School makes to third party vendors on behalf of Sequoia Choice. The initial terms of the agreement terminated on June 30, 2011 but extended terms remain effective on an annual basis for the next four years unless and until terminated with six months of notice by either party. During the year ended June 30, 2011, the School recognized administrative revenue of $641,190 under its contract with Sequoia Choice. To settle the School's obligations to CEDC, the School directed Sequoia Choice to make payments incurred for administrative services directly to CEDC. Future expenses are contingent upon the continuation of the contract and future revenues of Sequoia Choice.

## *NOTE 11 – INCOME TAXES:*

EdKey, Inc. qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code whose revenue is derived primarily from state equalization funds for charter schools, grants and contributions. Consequently, EdKey, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except for unrelated business taxable income which includes income derived from the School's subsidiary. The School is not a private foundation. The School has adopted FASB ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For the year ended June 30, 2011, the School had no material uncertain tax positions to be accounted for in the financial statements under the rules, and had no interest or penalties assessed by income taxing authorities. Management believes that the School is no longer subject to income tax examinations for years prior to the year ended June 30, 2008.

The School's subsidiary, EdKey Management, Inc. is a for-profit corporation which files its own tax return. The income tax expense of EdKey Management, Inc. was calculated entirely based on its current net income as a subsidiary for the year ended June 30, 2011. The School did not have deferred tax assets, liabilities, or unrecognized tax benefits at June 30, 2011.

## *NOTE 12 – CONCENTRATIONS OF RISK:*

The School has concentrated its credit risk by maintaining checking deposits in its banking institutions which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

Approximately 84% of the School's revenue for the year ended June 30, 2011 was derived from funds passed through or provided by the Arizona Department of Education. Collection from the state is reasonably assured, provided that the School complies with state laws and other contract terms stipulated in its charter with the Arizona State Board for Charter Schools.

***NOTE 13 – SUBSEQUENT EVENTS:***

In November 2011, the School purchased a building in Phoenix, Arizona for approximately $1,192,000 financed in part by a loan from Community Investment Corporation, with the majority of financing provided by a note agreement with the seller which is due November 2013.

In January 2012, the School entered into a $150,000 line of credit agreement with a bank to finance buildings and equipment in Mayer, Arizona. The School used $85,000 of available credit February 2, 2012 to purchase all remaining School facilities in Mayer which were previously rented.

**EdKey, Inc. and Subsidiary**
Supplemental Information
Consolidated Statement of Functional Expenses
Year Ended June 30, 2011

| | Program Expenses | General and Administrative | Total |
|---|---|---|---|
| **Personnel Services** | | | |
| Salaries | $ 3,320,098 | $ 774,942 | $ 4,095,040 |
| Payroll Taxes and Benefits | 915,385 | 213,660 | 1,129,045 |
| **Total Personnel Services** | 4,235,483 | 988,602 | 5,224,085 |
| **Operating Expenses** | | | |
| Administrative Fees | - | 1,542,863 | 1,542,863 |
| Advertising | - | 10,595 | 10,595 |
| Amortization | 21,342 | 4,982 | 26,324 |
| Depreciation | 316,620 | 73,902 | 390,522 |
| Equipment Maintenance and Repair | 98,905 | 23,085 | 121,990 |
| Food Service | 395,143 | - | 395,143 |
| Insurance | - | 73,286 | 73,286 |
| Occupancy | 802,377 | 187,282 | 989,659 |
| Other Expenses | 10,369 | 51,627 | 61,996 |
| Professional Fees | 277,268 | 205,180 | 482,448 |
| Rental of Property and Equipment | 3,149 | 31,720 | 34,869 |
| Student Transportation | 195,413 | - | 195,413 |
| Supplies | 208,139 | 118,987 | 327,126 |
| Travel | 36,799 | 4,652 | 41,451 |
| Utilities and Telephone | 227,927 | 53,200 | 281,127 |
| **Total Operating Expenses** | 2,593,451 | 2,381,361 | 4,974,812 |
| **TOTAL FUNCTIONAL EXPENSES** | $ 6,828,934 | $ 3,369,963 | $ 10,198,897 |

See Auditor's Report

KLECKA, WILKINS & KLECKA
• CERTIFIED PUBLIC ACCOUNTANTS •

Daniel E. Klecka, CPA
Harry F. Wilkins III, CPA
Michael J. Klecka, CPA

635 East Maryland Avenue
Phoenix, Arizona 85012

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
EdKey, Inc. and Subsidiary
Mesa, Arizona

We have audited the consolidated financial statements of EdKey, Inc. (an Arizona nonprofit corporation) and subsidiary (collectively, the School) as of and for the year ended June 30, 2011, and have issued our report dated February 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended for the information and use of management, others within the School, federal and state awarding agencies, pass-through entities and the Arizona State Board for Charter Schools and is not intended to be and should not be used by anyone other than these specified parties.

Klecka, Wilkins & Klecka

Phoenix, Arizona
February 27, 2012

Phone (602) 266-4318 • FAX (602) 279-4149
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www.kwkcpa.com

**EdKey, Inc. and Subsidiary**
Supplemental Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

| Federal Grantor / Program Title / Recipient School | Federal CFDA Number | Federal Award Number or State Project Number | Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Education** | | | |
| Passed Through from Arizona Department of Education: | | | |
| **ARRA Education Jobs Fund** | | | |
| Pathfinder Academy | 84.410 | 11FAAEJB-160456-02A | $ 20,344 |
| Redwood Academy | 84.410 | 11FAAEJB-160453-02A | 14,399 |
| Sequoia Ranch School | 84.410 | 11FAAEJB-160455-04A | 237,964 |
| | | | 272,707 |
| **ARRA Education Stabilization Fund - Fall** | | | |
| Pathfinder Academy | 84.394 | 11FAAGSG-160456-01A | 5,118 |
| Redwood Academy | 84.394 | 11FAAGSG-160453-01A | 4,348 |
| Sequoia Ranch School | 84.394 | 11FAAGSG-160455-01A | 57,308 |
| | | | 66,774 |
| **ARRA McKinney-Vento Homeless Education** | | | |
| Sequoia Ranch School | 84.387A | 11FSEVRG-160455-06A | 14,406 |
| **Title II, Part A - Improving Teacher Quality** | | | |
| Redwood Academy | 84.367A | 11FAATII-160453-05A | 2,042 |
| Sequoia Ranch School | 84.367A | 11FAATII-160455-09A | 11,558 |
| | | | 13,600 |
| **Title III LEP** | | | |
| Sequoia Ranch School | 84.365A | 11FACLEP-160455-05A | 12,493 |
| ***Education Technology State Grants Cluster:*** | | | |
| **Title II, Part D - Enhancing Education thru Technology** | | | |
| Redwood Academy | 84.318X | 11FETETF-160453-06A | 485 |
| Sequoia Ranch School | 84.318X | 11FETETF-160455-07A | 394 |
| | | | 879 |
| **ARRA Enhancing Education thru Technology Title II-D** | | | |
| Redwood Academy | 84.386 | 11FETEET-160453-07A | 51 |
| Sequoia Ranch School | 84.386 | 11FETEET-160455-11A | 153 |
| | | | 204 |
| ***Total Education Technology State Grants Cluster:*** | | | 1,083 |

See Accompanying Notes and Auditor's Report

**EdKey, Inc. and Subsidiary**
Supplemental Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

| Federal Grantor / Program Title / Recipient School | Federal CFDA Number | Federal Award Number or State Project Number | Federal Expenditures |
|---|---|---|---|
| ***Title I, Part A Cluster:*** | | | |
| **Title I, Part A - Grants to Local Educational Agencies (LEAs)** | | | |
| Redwood Academy | 84.010A | 11FAATTI-160453-04A | $ 33,179 |
| Sequoia Ranch School | 84.010A | 11FAATTI-160455-08A | 254,018 |
| | | | 287,197 |
| **ARRA Title I** | | | |
| Redwood Academy | 84.389A | 11FAAART-160453-03A | 1,236 |
| Sequoia Ranch School | 84.389A | 11FAAART-160455-13A | 64,107 |
| | | | 65,343 |
| **ARRA Title I Continuation - Summer School** | | | |
| Sequoia Ranch School | 84.389 | 11FAACSS-160455-14A | 8,219 |
| ***Total Title I, Part A Cluster:*** | | | 360,759 |
| ***Special Education Cluster (IDEA):*** | | | |
| **IDEA Basic Entitlement, Part B - Special Education Grants** | | | |
| Pathfinder Academy | 84.027A | 11FESCBG-160456-03A | 13,021 |
| Redwood Academy | 84.027A | 11FESCBG-160453-08A | 14,018 |
| Sequoia Ranch School | 84.027A | 11FESCBG-160455-11A | 104,966 |
| | | | 132,005 |
| **ARRA IDEA** | | | |
| Pathfinder Academy | 84.391 | 11FESAIG-160456-04A | 900 |
| Redwood Academy | 84.391 | 11FESAIG-160453-09A | 4,686 |
| Sequoia Ranch School | 84.391 | 11FESAIG-160455-12A | 43,790 |
| | | | 49,376 |
| **IDEA - Education of Children with Disabilities (Monitoring System)** | | | |
| Sequoia Ranch School | 84.027 | 11FESMSG-160455-03A | 330 |
| ***Total Special Education Cluster (IDEA):*** | | | 181,711 |
| Total from U.S. Department of Education: | | | 923,533 |

See Accompanying Notes and Auditor's Report

**EdKey, Inc. and Subsidiary**
Supplemental Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

| Federal Grantor / Program Title / Recipient School | Federal CFDA Number | Federal Award Number or State Project Number | Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Agriculture** | | | |
| Passed Through from Arizona Department of Education: | | | |
| ***Child Nutrition Cluster:*** | | | |
| **School Breakfast Program** | | | |
| Redwood Academy | 10.553 | N/A | $ 7,007 |
| Sequoia Ranch School | 10.553 | N/A | 127,005 |
| | | | 134,012 |
| **National School Lunch Program** | | | |
| Redwood Academy | 10.555 | N/A | 20,506 |
| Sequoia Ranch School | 10.555 | N/A | 236,539 |
| | | | 257,045 |
| ***Total Child Nutrition Cluster:*** | | | 391,057 |
| **Fresh Fruit and Vegetable Program** | | | |
| Redwood Academy | 10.582 | N/A | 910 |
| Sequoia Ranch School | 10.582 | N/A | 4,957 |
| | | | 5,867 |
| Total from U.S. Department of Agriculture: | | | 396,924 |
| **Total Expenditures of Federal Awards** | | | $ 1,320,457 |

See Accompanying Notes and Auditor's Report

## *NOTE 1 – REPORTING ENTITY:*

EdKey, Inc. (an Arizona nonprofit corporation) and its subsidiary operate public charter schools in Arizona.

## *NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:*

**Basis of Presentation**

The expenditures in the accompanying schedule of expenditures of federal awards are reported under the accrual basis of accounting. Purchases of fixed assets are recorded as expenditures in the year the expenditure is accrued, rather than in the year depreciation expense is taken.

**Schedule of Expenditures of Federal Awards**

The awards schedule presents only the expenditures incurred by the School that are reimbursable under federal programs of federal agencies providing financial assistance. Only the portion of program expenditures reimbursable with such federal funds is reported in the schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the schedule.

The schedule was prepared from only the accounts of the grant programs and therefore does not represent the financial position or results of operations of the School. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

KLECKA, WILKINS & KLECKA
• CERTIFIED PUBLIC ACCOUNTANTS •

Daniel E. Klecka, CPA
Harry F. Wilkins III, CPA
Michael J. Klecka, CPA

635 East Maryland Avenue
Phoenix, Arizona 85012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
EdKey, Inc. and Subsidiary
Mesa, Arizona

**Compliance**

We have audited the compliance of EdKey, Inc. and subsidiary (collectively, EdKey, Inc.) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. EdKey, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of EdKey, Inc.'s management. Our responsibility is to express an opinion on EdKey, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about EdKey, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of EdKey, Inc.'s compliance with those requirements.

In our opinion, EdKey, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

**Internal Control over Compliance**

Management of EdKey, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered EdKey, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of EdKey, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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This report is intended for the information of management, others within the School, federal and state awarding agencies, pass-through entities and the Arizona State Board for Charter Schools and is not intended to be and should not be used by anyone other than these specified parties.

Phoenix, Arizona
February 27, 2012

**EdKey, Inc. and Subsidiary**
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

## A. SUMMARY OF AUDIT RESULTS:

1. The auditor's report dated February 27, 2012 expresses an unqualified opinion on the financial statements of EdKey, Inc. and subsidiary (collectively, EdKey, Inc.).

2. No significant deficiencies were identified during the audit of the financial statements.

3. No instances of noncompliance material to the financial statements of EdKey, Inc. were disclosed during the audit of the financial statements.

4. No significant deficiencies were identified during the audit of the major federal award programs.

5. The *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133* expresses an unqualified opinion with respect to compliance with the requirements of the major program tested.

6. No audit findings were required to be reported relative to the major federal awards programs.

7. The following two programs were major programs: Child Nutrition Cluster (10.553 and 10.555) and Title I, Part A Cluster (84.010 and 84.389).

8. The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

9. EdKey, Inc. does not qualify as a low-risk auditee.

## B. FINDINGS REQUIRED TO BE REPORTED UNDER *GOVERNMENT AUDITING STANDARDS*:

1. No instances of noncompliance are required to be reported under generally accepted government auditing standards.

## C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

1. No findings and questioned costs relating to the audit of the federal award programs are required to be reported.

**EdKey, Inc. and Subsidiary**
Corrective Action Plan
Year Ended June 30, 2011

Not applicable.

**EdKey, Inc. and Subsidiary**
Schedule of Prior Year Audit Findings
Year Ended June 30, 2011

## NOTE 2010-F1: RECORDS MAINTENANCE

***Condition*** The School did not keep separate records in its accounting ledger for receipts or expenditures associated with the majority of its state fiscal stabilization funds disbursed under CFDA 84.394 - ARRA Education Stabilization Fund – Education State Grants, Recovery Act.

***Recommendation*** The School should record receipts and expenditures of its state fiscal stabilization funds in the same manner that it records transactions for its other federal funds, i.e., by recording transactions by separate fund, object and site levels as appropriate.

***Corrective Action:*** The School proposed to establish a separate fund to track and record revenues and expenditures of state fiscal stabilization funds under CFDA No. 84.394.

***Status*** During the year ended June 30, 2011, the School separated and recorded receipts of state fiscal stabilization funds by using unique function and object codes. However, expenditures of state fiscal stabilization funds were not separated from general funds in the same manner that transactions for other federal funds are recorded, i.e., by recording transactions by separate fund, object and site levels as appropriate.

## NOTE 2010-F2: RECORDS MAINTENANCE (2)

***Condition*** The School did not maintain its accounting system in a manner sufficient to prepare an accurate schedule of expenditures of federal awards.

***Recommendation*** The School should record receipts and expenditures of its state fiscal stabilization funds in the same manner that it records transactions for its other federal funds, i.e., by recording transactions by separate fund, object and site levels as appropriate. The School should then use those records to prepare the schedule of expenditures of federal awards and reconcile the schedule with its accounting records.

***Corrective Action:*** The School proposed to establish a separate fund to track and record revenues and expenditures of state fiscal stabilization funds under CFDA No. 84.394 and institute monthly and annual controls to ensure that federal award expenditures are recorded properly and errors in financial reporting will be corrected on at least a monthly basis.

***Status*** During the year ended June 30, 2011, the School separated and recorded receipts of state fiscal stabilization funds. However, expenditures of state fiscal stabilization funds were not separated from general funds in the same manner that transactions for other federal funds are recorded. As a result, the School again prepared the state fiscal stabilization portion of its schedule of expenditures of federal awards by estimating expenditures based on awards received.

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**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors
EdKey, Inc.
Mesa, Arizona

We have performed the procedures included in three Legal Compliance Questionnaires of the Arizona State Board for Charter Schools and enumerated below, which were agreed to by EdKey, Inc. and the Arizona State Board for Charter Schools (ASBCS), solely to assist you and the ASBCS in evaluating management's assertion about EdKey, Inc.'s compliance with the requirements of applicable state law, regulations of the ASBCS, and provisions of your charter contract as of and for the year ended June 30, 2011 and for testing dates specified by us. EdKey, Inc.'s management is responsible for compliance with all laws, regulations issued by ASBCS, and provisions of its charter contract. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We obtained sufficient evidence necessary to complete the Legal Compliance Questionnaires as required by the ASBCS.
2. We completed the Legal Compliance Questionnaires as required by the ASBCS.
3. We noted on the Legal Compliance Questionnaires all noncompliance requiring a "No" answer, material or otherwise, of which we became aware.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying compliance questionnaire. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended for the information and use of management, others within the School, federal and state awarding agencies, pass-through entities and the Arizona State Board for Charter Schools and is not intended to be and should not be used by anyone other than these specified parties.

Klecka, Wilkins & Klecka

Phoenix, Arizona
February 27, 2012

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Arizona State Board for Charter Schools

Legal Compliance Questionnaire

EdKey, Inc. - Pathfinder Academy

Fiscal Year Ended June 30, 2011

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## INSTRUCTIONS

**NOTE: This questionnaire should only be used for schools that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (schools that HAVE an exception). If a school is subject to procurement requirements pursuant to A.R.S. §15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines memo dated 6/13/2011) which is available on the Arizona State Board for Charter Schools' website http://asbcs.az.gov.**

In order to determine whether a charter school that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the auditors must complete the following Legal Compliance Questionnaire (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools).

The following prescribed minimum audit standards for completing the Legal Compliance Questionnaire must be used in all audits. The State Board for Charter Schools may reject audits not meeting these standards.

- Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the school complies with the legal requirements, and the evidence must be included in the audit documentation.

- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.

- Population size should be considered in determining the number of items to test, and the items selected should be representative of the population.

- The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.

- The sample size should be expanded if the audit firm cannot clearly determine whether the school complies with the legal requirements of the question.

- If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.

- All "No" and "N/A" answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.

- A "Yes" answer indicates that the audit firm has determined that the school complies with the legal requirements of the question and a "No" answer indicates the school does not comply. However, the final determination of compliance on each question, as well as overall compliance with legal requirements, is made by the State Board for Charter Schools based on the evidence presented in the questionnaire, audit reports, the audit documentation, and any other sources.

The resulting audit documentation supporting the audit firm's answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the audit documentation a copy of the questionnaire containing references to audit procedures performed for each question.

# Legal Compliance Questionnaire

| Questions/Subject Area | Yes/No | Comments |
|---|---|---|
| **Personnel** | | |
| 1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512(H)** | Yes | |
| (QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.)<br><br>2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board's website prior to completing these questions)**A.R.S. §15-183(C)(5)**:<br><br>a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date? | N/A | All required personnel had FCCs. |
| b. Did DPS receive the application prior to the hire date? | N/A | All required personnel had FCCs. |
| c. Prior to placement, did the school do all of the following?<br><br>i) Document the necessity for hiring/placing the individual prior to receiving a FCC? | N/A | All required personnel had FCCs. |
| ii) Obtain statewide criminal history information on the individual? | N/A | All required personnel had FCCs. |
| iii) Obtain references from the applicant's current and previous employers? | N/A | All required personnel had FCCs. |
| 3. Did the charter school maintain up-to-date fingerprints of all governing board members as of the testing date? **Charter Contract**[1] | Yes | |
| 4. Were all other personnel fingerprint checked as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512** | Yes | |
| 5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of resume information for all employees who provide instruction to pupils? **A.R.S. §15-183 (F)** | Yes | |

[1] Specific contract cites could not be provided as term references vary per contract year.

| | Yes/No | Comments |
|---|---|---|
| **Required Filings** | | |
| 1. Is the school in good standing with the following regulatory bodies:<br><br>a. Internal Revenue Service **U.S.C. Title 26** | | |
| i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service? | N/A | 1.a.i and 1.a.ii are Yes. |
| iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | 1.a.iii is not Yes. |
| b. Arizona Department of Revenue **A.R.S. §43-401 and §43-1111** | | |
| i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue? | N/A | 1.b.i and 1.b.ii are Yes. |
| iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | 1.b.iii is not Yes. |
| c. Arizona Department of Economic Security **A.R.S. § 23-721 et seq.** | | |
| i. State unemployment contributions requirements for the audited fiscal year? | Yes | |
| ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security? | N/A | 1.c.i and 1.c.ii are Yes. |
| iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | 1.c.iii is not Yes. |
| d. Corporation Commission (e.g., annual report)? **Charter Contract** | Yes | |

| | | |
|---|---|---|
| 2. Was a copy of the adopted budget signed by the Governing Board and filed with the Superintendent of Public Instruction by July 18th? **A.R.S. §15-905 (B) and (E) and §15-183 (E)(6)** | Yes | |
| 3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15th? **A.R.S. §15-183 (E) (6) and 15-904 (A)** | Yes | |
| **Special Education** | | |
| 1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education? | Yes | |
| 2. Does the school conduct 45 day screenings on all new students? **AAC R7-2-401** | Yes | |
| 3. Are evaluations and IEPs on file for special education students? **34 CFR 300.341-350 and 300.531-536** | Yes | |
| **Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum #44** | | |
| 1. Did the School properly allocate Classroom Site Fund receipts among the following projects: 1011—Base Salary (20%), 1012—Performance Pay (40%), and 1013—Other (40%)? | Yes | |
| 2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses? | Yes | |
| 3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses? | Yes | |
| 4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums? | Yes | |
| 5. Did the School use Classroom Site monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance for Classroom Site Projects.) | Yes | |
| 6. If the School had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years? | Yes | |
| 7. Did the School have sufficient cash at year- end to cover the carry over monies? | Yes | |
| **Student Attendance Reporting** | | |
| **If test work performed in questions 3-15 and 18 of this section discloses a net overstatement or understatement of membership and/or absence days, report the net overstatement or understatement in the "Comments" column.** | | |

| | Yes/No | Comments |
|---|---|---|
| 1. Was school in session for at least 180 days or 144 days for schools operating on a 4-day week, or did the governing board adopt a calendar with an equivalent number of minutes of instruction per school year based on a different number of days of instruction and were membership and attendance recorded for each day school was in session? **A.R.S. §§15-902 (H), (I),** and (J) and **15-341.01** | Yes | |
| 2. Did the School ensure that: (**Note:** Instruction hours do not include periods of the day in which an instructional program or course of study is not being offered, including, but not limited to, lunch, recesses, home room periods, study hall periods, and early release or late start hours. **ADE's** ***School Finance Procedures Manual)*** | | |
| a. Kindergarten was in session for at least 356 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| b. Grades 1 through 3 were in session for at least 712 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| c. Grades 4 through 6 were in session for at least 890 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| d. Grades 7 and 8 were in session for at least 1,000 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| e. For high school, a full-time instructional program meets at least 720 hours during the minimum number of days required? **A.R.S. §15-901(A)(2)** | N/A | No high school. |
| f. For high school, a full-time instructional program includes at least four subjects, each of which if taught each school day for the minimum number of days required in a school year, would meet a minimum of 123 hours a year; or any number of subjects totaling at least 20 hours per week, prorated for any week with fewer than 5 school days? **A.R.S. §15-901(A)(2)** | N/A | No high school. |
| **For Student Attendance Reporting questions 3-15, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. That sample should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested in steps 3-10 and 15 should be selected from the 100th day reporting period.**<br>**In the parentheses provided in questions 3-15, indicate the actual number of transactions tested. If all transactions were tested, indicate** | | |

| | | |
|---|---|---|
| **such in the "Comments" column.**<br><br>**For questions 3-5 select at least 3 student attendance records.** | | |
| 3. If the School had an early (pre-)kindergarten program, based upon review of (0) early (pre-) kindergarten students' attendance records, did the School only calculate and submit ADM data to ADE for this program if the program was designed to advance students to the first grade at the end of the of the school year? **A.R.S. §15-901(A)(2)(a)(i) and USFRCS Memorandum No. 33** | N/A | No early kindergarten. |
| 4. Based upon review of (3) students' attendance records in kindergarten programs with instructional time between 356 and 692 hours a year, were students not in attendance for at least three-quarters of the day counted as being absent? If the instructional time for the year was 692 hours or more, were students not in attendance at least one-half of the day counted as being absent? **A.R.S. §§15-901(A)(2)(a)(i) and 15-901(A)(6)(a)(i)** | Yes | |
| 5. If the School had an early first grade program, based upon review of (0) early first grade students' attendance records, did the School calculate and submit ADM for this program as it would for kindergarten in accordance with ADE's *School Finance Procedures Manual*? **A.R.S. §15-901(A)(2)(b)(i) and USFRCS Memorandum No. 33** | N/A | No early first grade. |
| **For questions 6 and 7, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15**<br>6. Based on review of (5) students' attendance records at elementary and junior high schools, in which attendance was based on half days, were students in attendance for less than one-half the day counted as being absent for one full day? Were students in attendance for at least one-half day, but less than three-quarters of a day, counted as being absent for one-half day? Were students in attendance for at least three-quarters of a day counted in attendance for a day? **A.R.S. §15-901(A)(6)(b)(ii)** | Yes | |

| | | |
|---|---|---|
| 7. Based upon review of (0) students' attendance records at elementary and junior high schools where attendance was based on quarter days, were students in attendance for more than three-quarters of the day counted in attendance for a day? Were students in attendance for three-quarters of the day or less counted in attendance for each quarter of the day in attendance? **A.R.S. §15-901(A)(6)(b)(i)** | N/A | All elementary attendance on half days. |
| **For questions 8 through 12, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **3**<br>**1,000-5,000** / **5**<br>**>5,000** / **7**<br>8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for (0) students whose attendance was reported in minutes, did the School report minutes of attendance only for actual classroom instruction attended by the students in accordance with ADE's *School Finance Procedures Manual*? | N/A | Attendance on half and quarter days. |
| 9. Based upon review of (0) high school students' records whose attendance was reported in terms of absences, for all absence days reported in a 1 month period, did the School report the absences in accordance with the method(s) provided in ADE's *School Finance Procedures Manual*? | N/A | No high school. |
| 10. Based upon review of (0) high school students' attendance records, did the School prorate the membership of the high school students enrolled in less than four subjects as provided in ADE's *School Finance Procedures Manual*? | N/A | No high school. |

| | | |
|---|---|---|
| 11. For schools offering an Arizona Online Instruction (AOI) Program, based upon a review of (0) AOI students' attendance records for 4 weeks:<br>a. Was the guardian-approved or School computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI School? **A.R.S. §15-808(E)** | N/A | No AOI program. |
| b. Did the hours reported to ADE agree to the guardian-approved or School computer-generated daily log? | N/A | No AOI program. |
| c. Were all pupils who participated in an AOI Program residents of this State? **A.R.S. §15-808** | N/A | No AOI program. |
| 12. Based upon review of (3) students' attendance records (all grades) for students withdrawn for having 10 consecutive unexcused absences, was the student only counted in membership through the last day of actual attendance? **A.R.S. §15-901(A)(2)** | Yes | |
| **For questions 13 and 14, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Entries/Withdrawals**<br>**<1,000** — **5**<br>**1,000-5,000** — **10**<br>**>5,000** — **15** | | |
| 13. Based upon review of (5) entries: (**Note:** Enrollment forms are not required for continuing students at the same school.) | | |
| a. Were entry dates entered into the School's computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry? | Yes | |
| b. Did the entry date in the computerized attendance system agree to the entry form? | Yes | |
| c. Did the teacher's attendance registers, if used, and other documentation support the entry date in the computerized attendance system? | Yes | |
| d. Did membership for continuing/pre-enrolled students begin with either the first day of actual attendance or the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of | Yes | |

| | | |
|---|---|---|
| school? For all other students, did membership begin with the first day of actual attendance? **ADE's** ***School Finance Procedures Manual*** | | |
| 14. Based upon review of (5) withdrawals: | | |
| a. Were the withdrawal dates entered into the School's computerized attendance system within 5 working days after the actual date of withdrawal and was documentation maintained to support the date of data entry? (**Note:** "Day of withdrawal" means: a.) the later of the student's withdrawal date or the day the school is notified the student will not be returning; or b.) the 10th day of non-attendance for students withdrawn for having ten consecutive unexcused absences.) | Yes | |
| b. Did the withdrawal date in the attendance system agree to the withdrawal form? (**Note:** If the computerized attendance system requires the school to input the first day of non-attendance for a student to be counted in membership through the last day of actual attendance, the withdrawal date on the system should be the school day following the withdrawal date on the form.) | Yes | |
| c. Did the teachers' attendance registers, if used, and other supporting documentation support the withdrawal date in the computerized attendance system? | Yes | |
| d. Was an Official Notice of Pupil Withdrawal form prepared and retained for each withdrawal and signed by a school administrator? **A.R.S. §15-827** | Yes | |
| **For question 15, use the following sample sizes:**<br>**SCHOOLWIDE ADM** — **Days**<br>**<1,000** — **3**<br>**1,000-5,000** — **5**<br>**>5,000** — **7** | | |
| 15. Based upon review of (3) days for various campuses, grades, and classes in the computerized attendance system, did the student absences from each day agree to the teachers' attendance registers, absence slips, or other supporting documentation, if used? | Yes | |

| | | |
|---|---|---|
| 16. Did the school have adequate electronic or manual controls in place to ensure that any changes to the original record of student attendance data were properly authorized and documented, including the names or identification numbers of the persons making and authorizing the changes? | Yes | |
| 17. Was the School's membership/absence information submitted to ADE electronically at least once every 20 school days through the last day of instruction (with the first 20 day period beginning the first day of school or the opening of SAIS for current fiscal year data submission, whichever is later)? **A.R.S. §15-1042(H)** | Yes | |
| 18. Based upon review of the School's 40th and 100th day information uploaded to ADE, did the membership and absences agree with the School's computerized attendance system records? (**Note:** For an AOI program, review year-end attendance information.) | Yes | |
| | **Yes/No** | **Comments** |
| **Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)** | | |
| 1. Beginning July 29, 2010, did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations? **Laws 2010, Chapter 88** ? | Yes | |
| 2. Beginning July 29, 2010, did the school post all public meeting notices on its website? **Laws 2010, Chapter 88** | Yes | |
| 3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting? | Yes | |
| 4. Were notices and agenda of public meetings posted at least 24 hours before the meeting? | Yes | |
| 5. Were written minutes prepared or a recording made of Governing Body meetings? | Yes | |
| **Insurance Requirements A.R.S. §15-183(M)** | | |
| Does the school have the required insurance for liability and property loss? | Yes | |
| **Tuition A.R.S. §15-185 (B)(6) (See also Attorney General Opinion I98-007) and Laws 2010, 7th S.S., Ch. 8, Sec. 16** | | |

| | | |
|---|---|---|
| Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents] and Laws 2010, 7th S.S., Ch. 8, Sec. 16 [full-day kindergarten for fiscal year 2011 only]? | Yes | |
| **Records Management** | | |
| 1. Did the school retain records in accordance with the Records Retention and Disposition for Arizona School Districts Manual published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? | Yes | |
| 2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)? | Yes | |

This Questionnaire was completed in accordance with the minimum audit standards as set forth in the instructions on pages 2 and 3.

| | |
|---|---|
| Klecka, Wilkins & Klecka | February 27, 2012 |
| Audit Firm | Date |
| | Partner |
| Preparer's Signature (Audit Firm Representative) | Title |

Arizona State Board for Charter Schools

Legal Compliance Questionnaire

EdKey, Inc. – Redwood Academy

Fiscal Year Ended June 30, 2011

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## INSTRUCTIONS

**NOTE: This questionnaire should only be used for schools that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (schools that HAVE an exception). If a school is subject to procurement requirements pursuant to A.R.S. §15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines memo dated 6/13/2011) which is available on the Arizona State Board for Charter Schools' website http://asbcs.az.gov.**

In order to determine whether a charter school that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the auditors must complete the following Legal Compliance Questionnaire (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools).

The following prescribed minimum audit standards for completing the Legal Compliance Questionnaire must be used in all audits. The State Board for Charter Schools may reject audits not meeting these standards.

- Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the school complies with the legal requirements, and the evidence must be included in the audit documentation.

- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.

- Population size should be considered in determining the number of items to test, and the items selected should be representative of the population.

- The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.

- The sample size should be expanded if the audit firm cannot clearly determine whether the school complies with the legal requirements of the question.

- If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.

- All "No" and "N/A" answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.

- A "Yes" answer indicates that the audit firm has determined that the school complies with the legal requirements of the question and a "No" answer indicates the school does not comply. However, the final determination of compliance on each question, as well as overall compliance with legal requirements, is made by the State Board for Charter Schools based on the evidence presented in the questionnaire, audit reports, the audit documentation, and any other sources.

The resulting audit documentation supporting the audit firm's answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the audit documentation a copy of the questionnaire containing references to audit procedures performed for each question.

# Legal Compliance Questionnaire

| Questions/Subject Area | Yes/No | Comments |
|---|---|---|
| **Personnel** | | |
| 1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512(H)** | Yes | |
| (QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.)<br><br>2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board's website prior to completing these questions)**A.R.S. §15-183(C)(5)**:<br><br>a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date? | N/A | All required personnel had FCCs. |
| b. Did DPS receive the application prior to the hire date? | N/A | All required personnel had FCCs. |
| c. Prior to placement, did the school do all of the following?<br><br>i) Document the necessity for hiring/placing the individual prior to receiving a FCC? | N/A | All required personnel had FCCs. |
| ii) Obtain statewide criminal history information on the individual? | N/A | All required personnel had FCCs. |
| iii) Obtain references from the applicant's current and previous employers? | N/A | All required personnel had FCCs. |
| 3. Did the charter school maintain up-to-date fingerprints of all governing board members as of the testing date? **Charter Contract**[1] | Yes | |
| 4. Were all other personnel fingerprint checked as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512** | Yes | |
| 5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of resume information for all employees who provide instruction to pupils? **A.R.S. §15-183 (F)** | Yes | |

[1] Specific contract cites could not be provided as term references vary per contract year.

| | Yes/No | Comments |
|---|---|---|
| **Required Filings** | | |
| 1. Is the school in good standing with the following regulatory bodies:<br><br>a. Internal Revenue Service **U.S.C. Title 26** | | |
| i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service? | N/A | 1.a.i and 1.a.ii are Yes. |
| iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | 1.a.iii is not Yes. |
| b. Arizona Department of Revenue **A.R.S. §43-401 and §43-1111** | | |
| i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue? | N/A | 1.b.i and 1.b.ii are Yes. |
| iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | 1.b.iii is not Yes. |
| c. Arizona Department of Economic Security **A.R.S. § 23-721 et seq.** | | |
| i. State unemployment contributions requirements for the audited fiscal year? | Yes | |
| ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security? | N/A | 1.c.i and 1.c.ii are Yes. |
| iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | 1.c.iii is not Yes. |
| d. Corporation Commission (e.g., annual report)? **Charter Contract** | Yes | |

| | | |
|---|---|---|
| 2. Was a copy of the adopted budget signed by the Governing Board and filed with the Superintendent of Public Instruction by July 18th? **A.R.S. §15-905 (B) and (E) and §15-183 (E)(6)** | Yes | |
| 3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15th? **A.R.S. §15-183 (E) (6) and 15-904 (A)** | Yes | |
| **Special Education** | | |
| 1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education? | Yes | |
| 2. Does the school conduct 45 day screenings on all new students? **AAC R7-2-401** | Yes | |
| 3. Are evaluations and IEPs on file for special education students? **34 CFR 300.341-350 and 300.531-536** | Yes | |
| **Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum #44** | | |
| 1. Did the School properly allocate Classroom Site Fund receipts among the following projects: 1011—Base Salary (20%), 1012—Performance Pay (40%), and 1013—Other (40%)? | Yes | |
| 2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses? | Yes | |
| 3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses? | Yes | |
| 4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums? | Yes | |
| 5. Did the School use Classroom Site monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance for Classroom Site Projects.) | Yes | |
| 6. If the School had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years? | Yes | |
| 7. Did the School have sufficient cash at year- end to cover the carry over monies? | Yes | |
| **Student Attendance Reporting** | | |
| **If test work performed in questions 3-15 and 18 of this section discloses a net overstatement or understatement of membership and/or absence days, report the net overstatement or understatement in the "Comments" column.** | | |

| | Yes/No | Comments |
|---|---|---|
| 1. Was school in session for at least 180 days or 144 days for schools operating on a 4-day week, or did the governing board adopt a calendar with an equivalent number of minutes of instruction per school year based on a different number of days of instruction and were membership and attendance recorded for each day school was in session? **A.R.S. §§15-902 (H), (I),** and (J) and **15-341.01** | Yes | |
| 2. Did the School ensure that: (**Note:** Instruction hours do not include periods of the day in which an instructional program or course of study is not being offered, including, but not limited to, lunch, recesses, home room periods, study hall periods, and early release or late start hours. **ADE's** *School Finance Procedures Manual*) | | |
| a. Kindergarten was in session for at least 356 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| b. Grades 1 through 3 were in session for at least 712 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| c. Grades 4 through 6 were in session for at least 890 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| d. Grades 7 and 8 were in session for at least 1,000 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| e. For high school, a full-time instructional program meets at least 720 hours during the minimum number of days required? **A.R.S. §15-901(A)(2)** | N/A | No high school. |
| f. For high school, a full-time instructional program includes at least four subjects, each of which if taught each school day for the minimum number of days required in a school year, would meet a minimum of 123 hours a year; or any number of subjects totaling at least 20 hours per week, prorated for any week with fewer than 5 school days? **A.R.S. §15-901(A)(2)** | N/A | No high school. |
| **For Student Attendance Reporting questions 3-15, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. That sample should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested in steps 3-10 and 15 should be selected from the 100th day reporting period.**<br>**In the parentheses provided in questions 3-15, indicate the actual number of transactions tested. If all transactions were tested, indicate** | | |

| | | |
|---|---|---|
| **such in the "Comments" column.**<br><br>**For questions 3-5 select at least 3 student attendance records.** | | |
| 3. If the School had an early (pre-)kindergarten program, based upon review of (0) early (pre-) kindergarten students' attendance records, did the School only calculate and submit ADM data to ADE for this program if the program was designed to advance students to the first grade at the end of the of the school year? **A.R.S. §15-901(A)(2)(a)(i) and USFRCS Memorandum No. 33** | N/A | No early kindergarten. |
| 4. Based upon review of (3) students' attendance records in kindergarten programs with instructional time between 356 and 692 hours a year, were students not in attendance for at least three-quarters of the day counted as being absent? If the instructional time for the year was 692 hours or more, were students not in attendance at least one-half of the day counted as being absent? **A.R.S. §§15-901(A)(2)(a)(i) and 15-901(A)(6)(a)(i)** | Yes | |
| 5. If the School had an early first grade program, based upon review of (0) early first grade students' attendance records, did the School calculate and submit ADM for this program as it would for kindergarten in accordance with ADE's *School Finance Procedures Manual?* **A.R.S. §15-901(A)(2)(b)(i) and USFRCS Memorandum No. 33** | N/A | No early first grade. |
| **For questions 6 and 7, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15**<br>6. Based on review of (5) students' attendance records at elementary and junior high schools, in which attendance was based on half days, were students in attendance for less than one-half the day counted as being absent for one full day? Were students in attendance for at least one-half day, but less than three-quarters of a day, counted as being absent for one-half day? Were students in attendance for at least three-quarters of a day counted in attendance for a day? **A.R.S. §15-901(A)(6)(b)(ii)** | Yes | |

| | | |
|---|---|---|
| 7. Based upon review of (0) students' attendance records at elementary and junior high schools where attendance was based on quarter days, were students in attendance for more than three-quarters of the day counted in attendance for a day? Were students in attendance for three-quarters of the day or less counted in attendance for each quarter of the day in attendance? **A.R.S. §15-901(A)(6)(b)(i)** | N/A | All elementary attendance on half days. |
| **For questions 8 through 12, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **3**<br>**1,000-5,000** / **5**<br>**>5,000** / **7**<br>8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for (0) students whose attendance was reported in minutes, did the School report minutes of attendance only for actual classroom instruction attended by the students in accordance with ADE's *School Finance Procedures Manual*? | N/A | Attendance on half and quarter days. |
| 9. Based upon review of (0) high school students' records whose attendance was reported in terms of absences, for all absence days reported in a 1 month period, did the School report the absences in accordance with the method(s) provided in ADE's *School Finance Procedures Manual*? | N/A | No high school. |
| 10. Based upon review of (0) high school students' attendance records, did the School prorate the membership of the high school students enrolled in less than four subjects as provided in ADE's *School Finance Procedures Manual*? | N/A | No high school. |

| | | |
|---|---|---|
| 11. For schools offering an Arizona Online Instruction (AOI) Program, based upon a review of (0) AOI students' attendance records for 4 weeks:<br>a. Was the guardian-approved or School computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI School? **A.R.S. §15-808(E)** | N/A | No AOI program. |
| b. Did the hours reported to ADE agree to the guardian-approved or School computer-generated daily log? | N/A | No AOI program. |
| c. Were all pupils who participated in an AOI Program residents of this State? **A.R.S. §15-808** | N/A | No AOI program. |
| 12. Based upon review of (3) students' attendance records (all grades) for students withdrawn for having 10 consecutive unexcused absences, was the student only counted in membership through the last day of actual attendance? **A.R.S. §15-901(A)(2)** | Yes | |
| **For questions 13 and 14, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Entries/Withdrawals**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15** | | |
| 13. Based upon review of (5) entries: (**Note:** Enrollment forms are not required for continuing students at the same school.) | | |
| a. Were entry dates entered into the School's computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry? | Yes | |
| b. Did the entry date in the computerized attendance system agree to the entry form? | Yes | |
| c. Did the teacher's attendance registers, if used, and other documentation support the entry date in the computerized attendance system? | Yes | |
| d. Did membership for continuing/pre-enrolled students begin with either the first day of actual attendance or the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of | Yes | |

| | | |
|---|---|---|
| school? For all other students, did membership begin with the first day of actual attendance? **ADE's** ***School Finance Procedures Manual*** | | |
| 14. Based upon review of (5) withdrawals: | | |
| a. Were the withdrawal dates entered into the School's computerized attendance system within 5 working days after the actual date of withdrawal and was documentation maintained to support the date of data entry? (**Note:** "Day of withdrawal" means: a.) the later of the student's withdrawal date or the day the school is notified the student will not be returning; or b.) the 10th day of non-attendance for students withdrawn for having ten consecutive unexcused absences.) | Yes | |
| b. Did the withdrawal date in the attendance system agree to the withdrawal form? (**Note:** If the computerized attendance system requires the school to input the first day of non-attendance for a student to be counted in membership through the last day of actual attendance, the withdrawal date on the system should be the school day following the withdrawal date on the form.) | Yes | |
| c. Did the teachers' attendance registers, if used, and other supporting documentation support the withdrawal date in the computerized attendance system? | Yes | |
| d. Was an Official Notice of Pupil Withdrawal form prepared and retained for each withdrawal and signed by a school administrator? **A.R.S. §15-827** | Yes | |
| **For question 15, use the following sample sizes:**<br>**SCHOOLWIDE ADM** — **Days**<br>**<1,000** — **3**<br>**1,000-5,000** — **5**<br>**>5,000** — **7** | | |
| 15. Based upon review of (3) days for various campuses, grades, and classes in the computerized attendance system, did the student absences from each day agree to the teachers' attendance registers, absence slips, or other supporting documentation, if used? | Yes | |

| | | |
|---|---|---|
| 16. Did the school have adequate electronic or manual controls in place to ensure that any changes to the original record of student attendance data were properly authorized and documented, including the names or identification numbers of the persons making and authorizing the changes? | Yes | |
| 17. Was the School's membership/absence information submitted to ADE electronically at least once every 20 school days through the last day of instruction (with the first 20 day period beginning the first day of school or the opening of SAIS for current fiscal year data submission, whichever is later)? **A.R.S. §15-1042(H)** | Yes | |
| 18. Based upon review of the School's 40th and 100th day information uploaded to ADE, did the membership and absences agree with the School's computerized attendance system records? (**Note:** For an AOI program, review year-end attendance information.) | Yes | |
| | **Yes/No** | **Comments** |
| **Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)** | | |
| 1. Beginning July 29, 2010, did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations? **Laws 2010, Chapter 88** ? | Yes | |
| 2. Beginning July 29, 2010, did the school post all public meeting notices on its website? **Laws 2010, Chapter 88** | Yes | |
| 3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting? | Yes | |
| 4. Were notices and agenda of public meetings posted at least 24 hours before the meeting? | Yes | |
| 5. Were written minutes prepared or a recording made of Governing Body meetings? | Yes | |
| **Insurance Requirements A.R.S. §15-183(M)** | | |
| Does the school have the required insurance for liability and property loss? | Yes | |
| **Tuition A.R.S. §15-185 (B)(6) (See also Attorney General Opinion I98-007) and Laws 2010, 7th S.S., Ch. 8, Sec. 16** | | |

| | | |
|---|---|---|
| Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents] and Laws 2010, 7th S.S., Ch. 8, Sec. 16 [full-day kindergarten for fiscal year 2011 only]? | Yes | |
| **Records Management** | | |
| 1. Did the school retain records in accordance with the Records Retention and Disposition for Arizona School Districts Manual published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? | Yes | |
| 2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)? | Yes | |

This Questionnaire was completed in accordance with the minimum audit standards as set forth in the instructions on pages 2 and 3.

Klecka, Wilkins & Klecka
Audit Firm

February 27, 2012
Date

Partner
Title

Preparer's Signature (Audit Firm Representative)

Arizona State Board for Charter Schools

Legal Compliance Questionnaire

EdKey, Inc. – Sequoia Ranch School

Fiscal Year Ended June 30, 2011

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## INSTRUCTIONS

**NOTE: This questionnaire should only be used for schools that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (schools that HAVE an exception). If a school is subject to procurement requirements pursuant to A.R.S. §15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines memo dated 6/13/2011) which is available on the Arizona State Board for Charter Schools' website http://asbcs.az.gov.**

In order to determine whether a charter school that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the auditors must complete the following Legal Compliance Questionnaire (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools).

The following prescribed minimum audit standards for completing the Legal Compliance Questionnaire must be used in all audits. The State Board for Charter Schools may reject audits not meeting these standards.

- Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the school complies with the legal requirements, and the evidence must be included in the audit documentation.

- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.

- Population size should be considered in determining the number of items to test, and the items selected should be representative of the population.

- The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.

- The sample size should be expanded if the audit firm cannot clearly determine whether the school complies with the legal requirements of the question.

- If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.

- All "No" and "N/A" answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.

- A "Yes" answer indicates that the audit firm has determined that the school complies with the legal requirements of the question and a "No" answer indicates the school does not comply. However, the final determination of compliance on each question, as well as overall compliance with legal requirements, is made by the State Board for Charter Schools based on the evidence presented in the questionnaire, audit reports, the audit documentation, and any other sources.

The resulting audit documentation supporting the audit firm's answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the audit documentation a copy of the questionnaire containing references to audit procedures performed for each question.

# Legal Compliance Questionnaire

| Questions/Subject Area | Yes/No | Comments |
|---|---|---|
| **Personnel** | | |
| 1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512(H)** | Yes | |
| (QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.)<br><br>2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board's website prior to completing these questions)**A.R.S. §15-183(C)(5):**<br><br>a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date? | N/A | All required personnel had FCCs. |
| b. Did DPS receive the application prior to the hire date? | N/A | All required personnel had FCCs. |
| c. Prior to placement, did the school do all of the following?<br><br>i) Document the necessity for hiring/placing the individual prior to receiving a FCC? | N/A | All required personnel had FCCs. |
| ii) Obtain statewide criminal history information on the individual? | N/A | All required personnel had FCCs. |
| iii) Obtain references from the applicant's current and previous employers? | N/A | All required personnel had FCCs. |
| 3. Did the charter school maintain up-to-date fingerprints of all governing board members as of the testing date? **Charter Contract**[1] | Yes | |
| 4. Were all other personnel fingerprint checked as of the testing date? **A.R.S. §15-183 (C)(5) and A.R.S. §15-512** | Yes | |
| 5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of resume information for all employees who provide instruction to pupils? **A.R.S. §15-183 (F)** | Yes | |

[1] Specific contract cites could not be provided as term references vary per contract year.

| | Yes/No | Comments |
|---|---|---|
| **Required Filings** | | |
| 1. Is the school in good standing with the following regulatory bodies:<br><br>a. Internal Revenue Service **U.S.C. Title 26** | | |
| i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service? | N/A | 1.a.i and 1.a.ii are Yes. |
| iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | 1.a.iii is not Yes. |
| b. Arizona Department of Revenue **A.R.S. §43-401 and §43-1111** | | |
| i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue? | N/A | 1.b.i and 1.b.ii are Yes. |
| iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | 1.b.iii is not Yes. |
| c. Arizona Department of Economic Security **A.R.S. § 23-721 et seq.** | | |
| i. State unemployment contributions requirements for the audited fiscal year? | Yes | |
| ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30th) is a true statement. | Yes | |
| iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security? | N/A | 1.c.i and 1.c.ii are Yes. |
| iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30th)? | N/A | 1.c.iii is not Yes. |
| d. Corporation Commission (e.g., annual report)? **Charter Contract** | Yes | |

| | | |
|---|---|---|
| 2. Was a copy of the adopted budget signed by the Governing Board and filed with the Superintendent of Public Instruction by July 18th? **A.R.S. §15-905 (B) and (E) and §15-183 (E)(6)** | Yes | |
| 3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15th? **A.R.S. §15-183 (E) (6) and 15-904 (A)** | Yes | |
| **Special Education** | | |
| 1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education? | Yes | |
| 2. Does the school conduct 45 day screenings on all new students? **AAC R7-2-401** | Yes | |
| 3. Are evaluations and IEPs on file for special education students? **34 CFR 300.341-350 and 300.531-536** | Yes | |
| **Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum #44** | | |
| 1. Did the School properly allocate Classroom Site Fund receipts among the following projects: 1011—Base Salary (20%), 1012—Performance Pay (40%), and 1013—Other (40%)? | Yes | |
| 2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses? | Yes | |
| 3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses? | Yes | |
| 4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums? | Yes | |
| 5. Did the School use Classroom Site monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance for Classroom Site Projects.) | Yes | |
| 6. If the School had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years? | Yes | |
| 7. Did the School have sufficient cash at year- end to cover the carry over monies? | Yes | |
| **Student Attendance Reporting** | | |
| **If test work performed in questions 3-15 and 18 of this section discloses a net overstatement or understatement of membership and/or absence days, report the net overstatement or understatement in the "Comments" column.** | | |

| | Yes/No | Comments |
|---|---|---|
| 1. Was school in session for at least 180 days or 144 days for schools operating on a 4-day week, or did the governing board adopt a calendar with an equivalent number of minutes of instruction per school year based on a different number of days of instruction and were membership and attendance recorded for each day school was in session? **A.R.S. §§15-902 (H), (I),** and (J) and **15-341.01** | Yes | |
| 2. Did the School ensure that: (**Note:** Instruction hours do not include periods of the day in which an instructional program or course of study is not being offered, including, but not limited to, lunch, recesses, home room periods, study hall periods, and early release or late start hours. **ADE's** *School Finance Procedures Manual*) | | |
| a. Kindergarten was in session for at least 356 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| b. Grades 1 through 3 were in session for at least 712 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| c. Grades 4 through 6 were in session for at least 890 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| d. Grades 7 and 8 were in session for at least 1,000 hours? **A.R.S. §15-901(A)(2)** | Yes | |
| e. For high school, a full-time instructional program meets at least 720 hours during the minimum number of days required? **A.R.S. §15-901(A)(2)** | Yes | |
| f. For high school, a full-time instructional program includes at least four subjects, each of which if taught each school day for the minimum number of days required in a school year, would meet a minimum of 123 hours a year; or any number of subjects totaling at least 20 hours per week, prorated for any week with fewer than 5 school days? **A.R.S. §15-901(A)(2)** | Yes | |
| **For Student Attendance Reporting questions 3-15, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. That sample should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested in steps 3-10 and 15 should be selected from the 100th day reporting period.**<br>**In the parentheses provided in questions 3-15, indicate the actual number of transactions tested. If all transactions were tested, indicate** | | |

| | | |
|---|---|---|
| **such in the "Comments" column.**<br><br>**For questions 3-5 select at least 3 student attendance records.** | | |
| 3. If the School had an early (pre-)kindergarten program, based upon review of (0) early (pre-) kindergarten students' attendance records, did the School only calculate and submit ADM data to ADE for this program if the program was designed to advance students to the first grade at the end of the of the school year? **A.R.S. §15-901(A)(2)(a)(i) and USFRCS Memorandum No. 33** | N/A | No early kindergarten . |
| 4. Based upon review of (3) students' attendance records in kindergarten programs with instructional time between 356 and 692 hours a year, were students not in attendance for at least three-quarters of the day counted as being absent? If the instructional time for the year was 692 hours or more, were students not in attendance at least one-half of the day counted as being absent? **A.R.S. §§15-901(A)(2)(a)(i) and 15-901(A)(6)(a)(i)** | Yes | |
| 5. If the School had an early first grade program, based upon review of (0) early first grade students' attendance records, did the School calculate and submit ADM for this program as it would for kindergarten in accordance with ADE's *School Finance Procedures Manual?* **A.R.S. §15-901(A)(2)(b)(i) and USFRCS Memorandum No. 33** | N/A | No early first grade. |
| **For questions 6 and 7, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** / **5**<br>**1,000-5,000** / **10**<br>**>5,000** / **15**<br>6. Based on review of (5) students' attendance records at elementary and junior high schools, in which attendance was based on half days, were students in attendance for less than one-half the day counted as being absent for one full day? Were students in attendance for at least one-half day, but less than three-quarters of a day, counted as being absent for one-half day? Were students in attendance for at least three-quarters of a day counted in attendance for a day? **A.R.S. §15-901(A)(6)(b)(ii)** | Yes | |

| | | |
|---|---|---|
| 7. Based upon review of (0) students' attendance records at elementary and junior high schools where attendance was based on quarter days, were students in attendance for more than three-quarters of the day counted in attendance for a day? Were students in attendance for three-quarters of the day or less counted in attendance for each quarter of the day in attendance? **A.R.S. §15-901(A)(6)(b)(i)** | N/A | All elementary attendance on half days. |
| **For questions 8 through 12, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Student Attendance Records**<br>**<1,000** — **3**<br>**1,000-5,000** — **5**<br>**>5,000** — **7**<br>8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for (0) students whose attendance was reported in minutes, did the School report minutes of attendance only for actual classroom instruction attended by the students in accordance with ADE's *School Finance Procedures Manual*? | N/A | Attendance on half and quarter days. |
| 9. Based upon review of (3) high school students' records whose attendance was reported in terms of absences, for all absence days reported in a 1 month period, did the School report the absences in accordance with the method(s) provided in ADE's *School Finance Procedures Manual*? | Yes | |
| 10. Based upon review of (3) high school students' attendance records, did the School prorate the membership of the high school students enrolled in less than four subjects as provided in ADE's *School Finance Procedures Manual*? | Yes | |

| | | |
|---|---|---|
| 11. For schools offering an Arizona Online Instruction (AOI) Program, based upon a review of (0) AOI students' attendance records for 4 weeks:<br>a. Was the guardian-approved or School computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI School? **A.R.S. §15-808(E)** | N/A | No AOI program. |
| b. Did the hours reported to ADE agree to the guardian-approved or School computer-generated daily log? | N/A | No AOI program. |
| c. Were all pupils who participated in an AOI Program residents of this State? **A.R.S. §15-808** | N/A | No AOI program. |
| 12. Based upon review of (3) students' attendance records (all grades) for students withdrawn for having 10 consecutive unexcused absences, was the student only counted in membership through the last day of actual attendance? **A.R.S. §15-901(A)(2)** | Yes | |
| **For questions 13 and 14, use the following sample sizes:** | | |
| **SCHOOLWIDE ADM** / **Entries/Withdrawals**<br>**<1,000** — **5**<br>**1,000-5,000** — **10**<br>**>5,000** — **15** | | |
| 13. Based upon review of (5) entries: (**Note:** Enrollment forms are not required for continuing students at the same school.) | | |
| a. Were entry dates entered into the School's computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry? | Yes | |
| b. Did the entry date in the computerized attendance system agree to the entry form? | Yes | |
| c. Did the teacher's attendance registers, if used, and other documentation support the entry date in the computerized attendance system? | Yes | |
| d. Did membership for continuing/pre-enrolled students begin with either the first day of actual attendance or the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of | Yes | |

| | | |
|---|---|---|
| school? For all other students, did membership begin with the first day of actual attendance? **ADE's** ***School Finance Procedures Manual*** | | |
| 14. Based upon review of (5) withdrawals: | | |
| a. Were the withdrawal dates entered into the School's computerized attendance system within 5 working days after the actual date of withdrawal and was documentation maintained to support the date of data entry? (**Note:** "Day of withdrawal" means: a.) the later of the student's withdrawal date or the day the school is notified the student will not be returning; or b.) the 10th day of non-attendance for students withdrawn for having ten consecutive unexcused absences.) | Yes | |
| b. Did the withdrawal date in the attendance system agree to the withdrawal form? (**Note:** If the computerized attendance system requires the school to input the first day of non-attendance for a student to be counted in membership through the last day of actual attendance, the withdrawal date on the system should be the school day following the withdrawal date on the form.) | Yes | |
| c. Did the teachers' attendance registers, if used, and other supporting documentation support the withdrawal date in the computerized attendance system? | Yes | |
| d. Was an Official Notice of Pupil Withdrawal form prepared and retained for each withdrawal and signed by a school administrator? **A.R.S. §15-827** | Yes | |
| **For question 15, use the following sample sizes:**<br>**SCHOOLWIDE ADM** — **Days**<br>**<1,000** — **3**<br>**1,000-5,000** — **5**<br>**>5,000** — **7** | | |
| 15. Based upon review of (3) days for various campuses, grades, and classes in the computerized attendance system, did the student absences from each day agree to the teachers' attendance registers, absence slips, or other supporting documentation, if used? | Yes | |

| | | |
|---|---|---|
| 16. Did the school have adequate electronic or manual controls in place to ensure that any changes to the original record of student attendance data were properly authorized and documented, including the names or identification numbers of the persons making and authorizing the changes? | Yes | |
| 17. Was the School's membership/absence information submitted to ADE electronically at least once every 20 school days through the last day of instruction (with the first 20 day period beginning the first day of school or the opening of SAIS for current fiscal year data submission, whichever is later)? **A.R.S. §15-1042(H)** | Yes | |
| 18. Based upon review of the School's 40th and 100th day information uploaded to ADE, did the membership and absences agree with the School's computerized attendance system records? (**Note:** For an AOI program, review year-end attendance information.) | Yes | |
| | **Yes/No** | **Comments** |
| **Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)** | | |
| 1. Beginning July 29, 2010, did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations? **Laws 2010, Chapter 88** ? | Yes | |
| 2. Beginning July 29, 2010, did the school post all public meeting notices on its website? **Laws 2010, Chapter 88** | Yes | |
| 3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting? | Yes | |
| 4. Were notices and agenda of public meetings posted at least 24 hours before the meeting? | Yes | |
| 5. Were written minutes prepared or a recording made of Governing Body meetings? | Yes | |
| **Insurance Requirements A.R.S. §15-183(M)** | | |
| Does the school have the required insurance for liability and property loss? | Yes | |
| **Tuition A.R.S. §15-185 (B)(6) (See also Attorney General Opinion I98-007) and Laws 2010, 7th S.S., Ch. 8, Sec. 16** | | |

| | | |
|---|---|---|
| Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents] and Laws 2010, 7th S.S., Ch. 8, Sec. 16 [full-day kindergarten for fiscal year 2011 only]? | Yes | |
| **Records Management** | | |
| 1. Did the school retain records in accordance with the Records Retention and Disposition for Arizona School Districts Manual published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? | Yes | |
| 2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)? | Yes | |

This Questionnaire was completed in accordance with the minimum audit standards as set forth in the instructions on pages 2 and 3.

| | |
|---|---|
| Klecka, Wilkins & Klecka | February 27, 2012 |
| Audit Firm | Date |
| | Partner |
| Preparer's Signature (Audit Firm Representative) | Title |