Renewal Budget Plan: THE PHOENIX SCHOOL OF ACADEMIC EXCELLENCE

		Actual	Projected Financial Information		
		FY 2011	FY 2012	FY 2013	FY 2014
ADM:		93.72	114.64	125.00	135.00
REVENUE					
State Equalization Assistance	1, 2	$644,684	$835,560	$848,288	$914,624
Classroom Site Fund		$27,721	$33,264	$35,224	$38,496
Instructional Improvement Fund		$3,425	$2,500	$4,200	$4,575
Federal Funds/Grants		$102,684	$28,290	$7,750	$51,363
Other State Funds/Grants		$0	$0	$0	$0
Food Service (e.g., NSLP, food sales)		$0	$0	$0	$0
Extracurricular Tax Credits		$4,750	$2,700	$4,650	$5,025
Contributions and Donations		$1,000	$0	$0	$0
Fundraising		$1,221	$5,800	$3,975	$4,300
Earnings on Investments		$20	$0	$0	$0
Student Activities		$8,904	$0	$11,875	$12,825
Kindergarten Tuition (Applies only to FY10 & FY11 unless expanded by Legislature)		$0	$0	$0	$0
Other		$1,074	$0	$0	$0
TOTAL REVENUE		$795,483	$908,114	$915,963	$1,031,208
EXPENSES					
Instructional					
Salaries	6	$208,570	$202,972	$242,972	$262,972
Payroll Taxes	6	$11,103	$11,343	$14,691	$16,483
Employee Benefits	3, 6	$3,047	$15,961	$20,583	$23,112
Purchased Services (Consultants)		$23,424	$7,750	$7,900	$8,075
Purchased Services (Special Education)		$46,628	$27,000	$27,550	$28,100
Technology		$0	$0	$5,500	$5,500
Textbooks/Curriculum/Library	6	$480	$18,400	$2,500	$1,300
Instructional Supplies		$2,265	$13,750	$14,025	$14,300
Professional Development		$0	$0	$0	$0
Travel		$0	$2,750	$2,750	$2,750
Other		$0	$0	$0	$0
Total Instructional		$295,517	$299,926	$338,472	$362,592
Non-Instructional					
Salaries	4	$109,200	$172,140	$105,380	$105,380
Payroll Taxes	4	$7,803	$13,168	$8,223	$8,387
Employee Benefits	3, 4	$26,714	$38,808	$28,562	$28,851
Purchased Services	7	$75,937	$59,504	$63,737	$57,175
Rent/Bond Payment		$200,863	$201,128	$200,840	$204,857
Repairs and Maintenance		$1,826	$9,100	$9,282	$9,468
Property, Casualty, Liability Insurance		$13,271	$13,894	$14,172	$14,455
Interest/Property Taxes		$8,523	$0	$0	$0
Communications		$15,672	$13,000	$13,260	$13,525
Furniture and Other Equipment		$0	$500	$8,000	$500
Note/Loan/Non-Facility Lease Payments		$2,765	$196	$200	$205
Audit		$10,500	$11,000	$11,525	$11,775
Legal		$95	$100	$100	$100
Advertising/Marketing		$40	$0	$2,500	$2,500
Travel		$0	$1,000	$1,000	$1,000
Printing and Postage		$1,046	$200	$625	$638
Supplies		$2,210	$2,600	$2,652	$2,705
Food Service		$0	$0	$0	$0
Transportation		$11,063	$13,580	$14,781	$15,964
Student Activities		$9,442	$5,300	$9,175	$9,925
Fees and Dues		$3,482	$1,392	$1,420	$1,448
Other	5	$45,061	$1,000	$1,000	$1,000
Total Non-Instructional		$545,511	$557,610	$496,434	$489,858
TOTAL EXPENSES		$841,028	$857,536	$834,906	$852,450
Increase (Decrease) in Net Assets		($45,545)	$50,578	$81,057	$178,758
Net Assets, Beginning of Year		($12,046)	($57,591)	($7,013)	$74,044
Net Assets, End of Year		($57,591)	($7,013)	$74,044	$252,802

ASSUMPTIONS/NOTES

1. Equalization revenue for 2010/11 and 2011/12 reflects the loss of full-day kindergarten and less in additional assistance.
2. Equalization revenue for 2012/13 and 2013/14 reflects adjustments due to correction of state aid calculations.
3. Employees Benefits reflect ASRS return to 50/50 split.
4. Salaries, Payroll Taxes, and Employee Benefits reflect elimination of CFO.
5. Other Expenditures include dues and fees for administration and depreciation (2010/11 only).
6. Projected expenses for 2011/12, 2012/13, and 2013/14 assume Performance Management Plan expenses (which are based on the Performance Management Plan Template budget).
7. Purchased Services for 2012/13 reflects start-up and implementation of new SAIS Data Management System

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Phoenix School of Academic Excellence
Phoenix, Arizona

We have audited the accompanying Statement of Financial Position of Phoenix School of Academic Excellence (School) as of June 30, 2010, and the related statement 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 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 Phoenix School of Academic Excellence as of June 30, 2010, 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.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 8 to the financial statements, the School is dependent on continued financing from notes and other debt financing for operations; these matters, as well as the School's recurring deficit in net assets and the State's budget cuts, raises substantial doubt about the School's ability to continue as a going concern. Management's plans in regard to these matters are discussed in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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Board of Directors
Phoenix School of Academic Excellence

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2010 on our consideration of the School'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 the 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.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
November 4, 2010

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
STATEMENT OF FINANCIAL POSITION
JUNE 30, JUNE 30, 2010

ASSETS

CURRENT ASSETS		
Cash and Cash Equivalents	$	58,624
Due from State		6,181
Prepaid Items		10,343
Total Current Assets		75,148
PROPERTY AND EQUIPMENT, NET		86,666
Total Assets	$	161,814

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	$	29,767
Due to State		32,757
Notes Payable		95,206
Total Current Liabilities		157,730
NON CURRENT LIABILITIES		
Notes Payable		16,130
Total Liabilities		173,860
NET ASSETS		
Unrestricted		(72,196)
Temporarily Restricted		60,150
Total Net Assets		(12,046)
Total Liabilities and Net Assets	$	161,814

See accompanying Notes to Financial Statements.

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Total
REVENUE			
State Aid	$ 590,964	$ 1,327	$ 592,291
Federal Aid	264,043	-	264,043
Contributions and Donations	3,800	-	3,800
Interest Revenue	58	-	58
Other Income	8,031	-	8,031
Net Assets Released From Restriction	8,758	(8,758)	-
Total Revenue	875,654	(7,431)	868,223
EXPENSE			
Program Services:			
Instruction	264,196	-	264,196
Student Support	187,071	-	187,071
Operation and Maintenance of Plant	229,678	-	229,678
Management and General:			
General Administration	39,182	-	39,182
School Administration	113,340	-	113,340
Business Support Services	84,029	-	84,029
Central Support Services	16,200	-	16,200
Total Expense	933,696	-	933,696
CHANGE IN NET ASSETS	(58,042)	(7,431)	(65,473)
Net Assets - Beginning of Year	(14,154)	67,581	53,427
NET ASSETS - END OF YEAR	$ (72,196)	$ 60,150	$ (12,046)

See accompanying Notes to Financial Statements.

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Sales, Grants and Contributions	$	876,740
Interest Revenue		58
Cash Payments to Employees for Services		(324,498)
Cash Payments to Suppliers for Goods/Services		(561,469)
Cash Payments for Interest on Long-term Debt		(4,217)
Net Cash Used by Operating Activities		(13,386)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment		(17,761)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Paid on Notes Payable		(93,640)
Proceeds from Notes Payable		75,000
Net Cash Used for Financing Activities		(18,640)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(49,787)
Cash and Cash Equivalents - Beginning of Year		108,411
CASH AND CASH EQUIVALENTS - END OF YEAR	$	58,624
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Changes in Net Assets	$	(65,473)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		35,178
(Increase) Decrease in Operating Assets:		
Due from Federal		9,767
Due from State		(1,192)
Prepaid Items		745
Increase (Decrease) in Operating Liabilities:		
Accounts Payable		17,606
Accrued Payroll and Related Liabilities		(10,017)
Net Cash Used by Operating Activities	$	(13,386)

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Phoenix School of Academic Excellence ("School") was formed in 1998 to operate as a nonprofit corporation for charitable educational purposes. The School provides educational services to students in seventh through twelfth grades. The focus of the School is to provide young people with an education which provides relevant courses for future studies in college as well as professional level computer credentials which can be used for high paying careers at the completion of the program.

The School operates under a charter contract with the Arizona State Board for Charter Schools. Phoenix School of Academic Excellence derives program funding from state educational aid, government grants and private donations. The charter expires in June 2013.

The financial statements of Phoenix School of Academic Excellence have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

Net assets and revenues, gains and losses are classified based on state and donor imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control. These resources are not subject to state or donor-imposed stipulations.

Temporarily Restricted – Those resources subject to state or donor imposed restrictions which will be satisfied by actions of the School or passage of time.

Permanently Restricted – Those resources subject to a state or donor imposed restriction that they be maintained permanently by the School. The donors of these resources permit the School to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

As of June 30, 2010, The School had only unrestricted and temporarily restricted net assets.

Restricted Support

Support is recognized when received. Support that is restricted by the donor/grantor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the support is recognized. All other donor restricted support is reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Support that is permanently restricted by the donor/grantor is reported as increases in permanently restricted net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, the School considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The School maintains its cash in savings and demand accounts.

Accounts Receivable

The School uses the allowance method to account for uncollectible accounts receivable. The allowance is sufficient to cover both current and anticipated future losses. Uncollectible amounts are charged against the allowance account. Management estimated an allowance of $-0- based upon the School's experience.

Property and Equipment

Assets with a unit cost greater than $300 are capitalized at historical cost, or estimated historical cost if the actual historical cost is not available. Assets donated to the School are recorded at their estimated fair value at the time received. Depreciation on building improvements, furniture and equipment is computed using the straight-line method over the estimated useful lives of the assets. Expenses associated with the repair or maintenance of buildings and improvements and furniture and equipment are not capitalized and are recognized on the statement of activities in the fiscal year incurred.

Functional Expenses

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated on the best estimates of management.

Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the School has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the code.

Effective January 1, 2009, the School adopted a policy that clarifies the accounting for uncertainty in income taxes recognized in a School's financial statements. The policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this policy had no impact on the School's financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status

The School files as a tax-exempt corporation. As of June 30, 2010, their fiscal years 2007 through 2009 tax years are open for examination by the IRS.

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through November 4, 2010, the date the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

		Useful Life
Buildings and Improvements	$ 214,904	10-20 years
Leasehold Improvements	64,515	3-5 years
Furniture and Equipment and Vehicles	291,792	2-5 years
Total	571,211	
Less: Accumulated Depreciation	(484,545)	
Property and Equipment, Net	$ 86,666	

Depreciation expense for the year ended June 30, 2010 totaled $35,178.

NOTE 3 OBLIGATIONS UNDER LEASES

Operating Leases

The School leases buildings and equipment under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were $197,827 for the year ended June 30, 2010.

The future minimum rental payments required under the operating leases at June 30, 2010 were as follows:

Year Ended June 30,	Amount
2011	$ 201,127
2012	177,297
2013	179,543
Total Minimum Payments Required	$ 557,967

NOTE 4 NOTES PAYABLE

Notes payable at June 30, 2010 consisted of the following:

An unsecured note payable with total interest of $750 due to one of the School's vendors. Principal and interest are due July 9, 2010.	$ 75,000
An unsecured 9% note payable with principal and interest payments paid monthly through December 11, 2011.	20,898
A secured 6.49% note payable with principal and interest payments paid monthly through September, 2012.	15,438
Total Notes Payable	111,336
Less: Current Portion	(95,206)
Long-term Notes Payable	$ 16,130

Interest expense on the notes payable during the fiscal year ended June 30, 2010 was $4,217.

Notes payable principal and interest requirements to maturity including $3,465 of interest are as follows:

Year Ended June 30,	Amount
2011	$ 98,106
2012	14,842
2013	1,853
Total Minimum Payments	$ 114,801

NOTE 5 LINE OF CREDIT

The School has a $35,000 line of credit that is secured by property and other assets. The interest rate is variable and determined by the index plus 1% (4% at year end). There were no outstanding draws on the line at June 30, 2010.

NOTE 6 RESTRICTIONS ON NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes at June 30, 2010:

Classroom Site Funds:	
Teacher base salary increases	$ 54,650
Performance based teacher compensation	5,500
	$ 60,150

NOTE 7 GOING CONCERN

To support the School's cash flow needs, it was necessary to obtain funding from other sources to pay the School's accrued liabilities, including a note from one of the School's vendors. Due to the School's reliance on notes to support operations, other debt related financing, the current deficit reported in the School's unrestricted net assets, and the State of Arizona's budget cuts that directly affect equalization revenues, there is substantial doubt about the School's ability to continue as a going concern. Management's plan to address this concern is through marketing the Schools programs to increase student enrollment and seek future funding through grants to assist in operating its current programs. Management is also aware of its dependency on funding from other financing sources and although Management's current plan does not include cost reduction measures, if it were necessary, the School would consider cost cutting measures to continue operations.

NOTE 8 ECONOMIC DEPENDENCY

The School received more than 98% of its funding from state and federal sources. Of the $856,334 the School received in federal and state funding, 80% is unrestricted and 20% is restricted to specific programs. The School's operations are dependent on continued funding from these sources.

NOTE 9 RETIREMENT PLAN

Plan Description

The School contributes to a cost-sharing multiple employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

NOTE 9 RETIREMENT PLAN (CONTINUED)

Plan Description

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2001 or (800) 621-3778.

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the School's contribution rate. For the year ended June 30, 2010, active plan members and the School were each required by statute to contribute at the actuarially determined rate of 9.40 percent (9.00 percent for retirement and 0.4 percent for long-term disability) of the members' annual covered payroll. The School was required by statute to contribute at the actuarially determined rate of 9.40 percent (7.90 percent retirement, 1.10 percent for health insurance premium, and 0.4 percent long-term disability) of the members' annual covered payroll. The School's contributions to the System for the year ended June 30, 2010 was $29,266.

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*

Board of Directors
Phoenix School of Academic Excellence
Phoenix, Arizona

We have audited financial statements of Phoenix School of Academic Excellence (School) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 4, 2010. 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

In planning and performing our audit, we considered the School's internal control over financial reporting, (internal control) as a basis for designing our auditing 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 Phoenix School of Academic Excellence's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as described in the accompanying schedule of findings and recommendations, we identified a deficiency in internal control that we consider to be a material weakness.

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 a 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. We consider the deficiency described in the accompanying schedule of findings and recommendations as item 2010-01 to be a material weakness.

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COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Phoenix School of Academic Excellence'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 solely for the information and use of management, the Board of Directors, others within Phoenix School of Academic Excellence and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
November 4, 2010

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, JUNE 30, 2010

2010-01	*Condition*	The duties of cash handling, record keeping and reconciling were not segregated among employees. The School noted that compensating controls were in place to address the oversight; however, adequate documentation was not maintained to support the compensating controls.
	Context	One individual performs all job functions related to cash receipts and disbursements.
	Criteria	Internal control procedures.
	Effect	Internal control weakness.
	Cause	Due to the size of the financial and administrative staff, the duties of cash handling, record keeping and reconciling accounts could not always be segregated. However, the School has implemented compensating controls to minimize the risk of fraud or error as a result of the lack of segregation of duties.
	Recommendation	In order to strengthen internal controls, the School should consider the number of financial and administrative staff necessary to adequately segregate the duties of cash handling, record keeping and reconciliation. The School should also review the duties of current staff to determine whether it would be possible to segregate certain duties.

Arizona State Board for Charter Schools

Legal Compliance Questionnaire

Phoenix School of Academic Excellence

Fiscal Year Ended June 30, 2010

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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 Questionnaire (see audit guidelines memo dated 6/10) 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 documented in the working papers.

- 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 auditor cannot clearly determine whether the school complies with the legal requirements on that 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 auditor 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 auditor’s working papers, and any other sources.

The resulting audit working papers supporting auditors’ 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, auditors may wish to include in the working papers 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 fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? **A.R.S. §15-183 (C)(4)**	Yes	
(QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.) 2. For each individual referenced in #1 that did not have a 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. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date?	N / A	There were no employees that did not have an FCC.
b. Did DPS receive the application prior to the hire date?	N / A	
c. Prior to placement, did the school do all of the following? i) Document the necessity for hiring / placing the individual prior to receiving a FCC?	N / A	
ii) Obtain statewide criminal history information on the individual as required by **Laws 2005, Chapter 21**?	N / A	
iii) Obtain references from the applicant's current and previous employers as required by **Laws 2005, Chapter 21**?	N / A	
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)(4); 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.

Questions/Subject Area	Yes/No	Comments
Required Filings		
1. Is the school in good standing with the following regulatory bodies: a. Internal Revenue Service for payroll taxes, income taxes (if applicable) and required tax forms? (**26 U.S.C. §3402**)	Yes	
b. Corporation Commission (annual report)? (**Charter Contract**)	Yes	
c. Arizona Department of Revenue for payroll taxes, state income taxes (if applicable) and applicable tax forms? (**A.R.S. §43-401 and §43-1111**)	Yes	
d. State unemployment contribution requirements? (**A.R.S. § 23-721 et seq**)	Yes	
2. Was a copy of the adopted budget signed by a majority of the Governing Board members and filed with the Superintendent of Public Instruction by July 18? **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	As of the report date, the 2010 AFR has not been submitted to the Arizona Department of Education; therefore, the 2009 AFR was reviewed for compliance.
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 screening on all new students? **AAC R7-2-401**	Yes	
3. Are evaluations and IEP's 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	

Questions/Subject Area	Yes/No	Comments
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 3-16 and 19 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.		
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*)	Yes	
a. Kindergarten was in session for at least 356 hours? **A.R.S. §15-901(A)(2)**.	N / A	The School did not have Kindergarten.
b. Grades 1 through 3 were in session for at least 712 hours? **A.R.S. §15-901(A)(2)**.	N / A	The School did not have grades 1 through 3.
c. Grades 4 through 6 were in session for at least 890 hours? **A.R.S. §15-901(A)(2)**.	N / A	The School did not have grades 4 through 6.
d. Grades 7 and 8 were in session for at least 1,068 hours for fiscal year 2010 (1,000 hours for FY 2011 and thereafter)? **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	

Questions/Subject Area	Yes/No	Comments
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 3-16, 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 16 should be selected from the 100th day reporting period. **In the parentheses provided in questions 3-16, 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 (N/A) 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	The School did not have an early (pre-) kindergarten program.
4. Based upon review of (N/A) 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	The School did not have a kindergarten program.
5. If the School had an early first grade program, based upon review of (N/A) 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)**.	N/A	The School did not have an early first grade program.

Questions/Subject Area	Yes/No	Comments
For questions 6 and 7, use the following sample sizes:		
SCHOOLWIDE ADM / **Student Attendance Records** **<1,000** — **5** **1,000-5,000** — **10** **>5,000** — **15**		
6. Based on review of (N/A) 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 was 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** **<1,000** — **3** **1,000-5,000** — **5** **>5,000** — **7**		
8. Based upon review of the attendance records for a 1 month period for (N/A) 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 was based on quarter days.

Questions/Subject Area	Yes/No	Comments
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 (N / A) 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	The School did not have students enrolled in less than 4 subjects.
11. For schools offering an Arizona Online Instruction (AOI) Program, based upon a review of (N / A) AOI students' attendance records for 4 weeks: 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	The School did not offer an Arizona Online Instruction.
b. Did the hours reported to ADE agree to the guardian-approved or School computer-generated daily log?	N / A	
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 through 15, use the following sample sizes:		
SCHOOLWIDE ADM / **Entries/Withdrawals** **<1,000** / **5** **1,000-5,000** / **10** **>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 the 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	

Questions/Subject Area	Yes/No	Comments
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 attended within the first 10 days of school? For all other students, membership begins with the first day of actual attendance. **ADE's** *School Finance Procedures Manual*.	Yes	
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	

Questions/Subject Area	Yes/No	Comments
15. For schools offering an AOI program, based on a review of (____) student records were all pupils who participated in AOI residents of this State? **A.R.S. §15-808(B)**.	N / A	The School did not offer an AOI program.
For question 16, use the following sample sizes: **SCHOOLWIDE ADM** — **Days** **<1,000** — **3** **1,000-5,000** — **5** **>5,000** — **7**		
16. 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	
17. 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	
18. 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 session day of school or the opening of SAIS for current fiscal year data submission, whichever is later)? **A.R.S. §15-1042(H).**	Yes	
19. 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	
Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)		
1. Did the school file a disclosure statement with the Secretary of the State identifying where public notices of its meetings will be posted?	Yes	

Questions/Subject Area	Yes/No	Comments
2. 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	
3. Were notices and agenda of public meetings posted at least 24 hours before the meeting?	Yes	
4. 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)(7) (See also Attorney General Opinion I98-007)		
Did the school refrain from charging fees that may be considered tuition?	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.

LarsonAllen LLP	November 4, 2010
Audit Firm	Date
	Principal
Preparer's Signature (Audit Firm Representative)	Title

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
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JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Phoenix School of Academic Excellence
Phoenix, Arizona

We have audited the accompanying Statement of Financial Position of Phoenix School of Academic Excellence (School) as of June 30, 2011, and the related statement 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 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 Phoenix School of Academic Excellence 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.

A prior period adjustment was recorded in Note 9 to correct an error in reporting temporarily restricted net assets in the previously issued financial statements.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 6 to the financial statements, the School is dependent on continued financing from notes and other debt financing for operations; these matters, as well as the School's recurring deficit in net assets and the State's budget cuts, raises substantial doubt about the School's ability to continue as a going concern. Management's plans in regard to these matters are discussed in Note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NEXIA INTERNATIONAL
An independent member of Nexia International

Board of Directors
Phoenix School of Academic Excellence

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011 on our consideration of the School'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 the 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.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
October 21, 2011

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

CURRENT ASSETS		
Restricted Cash and Cash Equivalents	$	27,139
Due from State		3,655
Prepaid Items		10,803
Total Current Assets		41,597
PROPERTY AND EQUIPMENT, NET		58,596
Total Assets	$	100,193

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	$	41,397
Due to State		32,757
Notes Payable		81,816
Total Current Liabilities		155,970
NON CURRENT LIABILITIES		
Notes Payable		1,814
Total Liabilities		157,784
UNRESTRICTED NET ASSETS		(57,591)
Total Liabilities and Net Assets	$	100,193

See accompanying Notes to Financial Statements.

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUE			
State Aid	$ 675,831	$ -	$ 675,831
Federal Aid	102,685	-	102,685
Contributions and Donations	5,750	-	5,750
Interest Revenue	20	-	20
Other Income	11,199	-	11,199
Total Revenue	795,485	-	795,485
EXPENSE			
Program Services:			
Instruction	290,451	-	290,451
Student Support	93,026	-	93,026
Operation and Maintenance of Plant	233,477	-	233,477
Management and General:			
General Administration	38,429	-	38,429
School Administration	120,932	-	120,932
Business Support Services	64,715	-	64,715
Total Expense	841,030	-	841,030
CHANGE IN NET ASSETS	(45,545)	-	(45,545)
NET ASSETS - BEGINNING OF YEAR AS PREVIOUSLY REPORTED	(72,196)	60,150	(12,046)
Restatement of Net Assets - Beginning of Year	60,150	(60,150)	-
NET ASSETS - BEGINNING OF YEAR AS RESTATED	(12,046)	-	(12,046)
NET ASSETS - END OF YEAR	$ (57,591)	$ -	$ (57,591)

See accompanying Notes to Financial Statements.

PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Sales, Grants and Contributions	$	797,991
Interest Revenue		20
Cash Payments to Employees for Services		(282,217)
Cash Payments to Suppliers for Goods/Services		(504,510)
Cash Payments for Interest on Long-term Debt		(8,523)
Net Cash Provided by Operating Activities		2,761
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment		(6,540)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Paid on Notes Payable		(105,706)
Proceeds from Notes Payable		78,000
Net Cash Used for Financing Activities		(27,706)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(31,485)
Cash and Cash Equivalents - Beginning of Year		58,624
CASH AND CASH EQUIVALENTS - END OF YEAR	$	27,139
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Changes in Net Assets	$	(45,545)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		34,610
(Increase) Decrease in Operating Assets:		
Due from State		2,526
Prepaid Items		(460)
Increase in Operating Liabilities:		
Accounts Payable		11,630
Net Cash Provided by Operating Activities	$	2,761

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Phoenix School of Academic Excellence ("School") was formed in 1998 to operate as a nonprofit corporation for charitable educational purposes. The School provides educational services to students in seventh through twelfth grades. The focus of the School is to provide young people with an education which provides relevant courses for future studies in college as well as professional level computer credentials which can be used for high paying careers at the completion of the program.

The School operates under a charter contract with the Arizona State Board for Charter Schools. Phoenix School of Academic Excellence derives program funding from state educational aid, government grants and private donations. The charter expires in June 2013.

The financial statements of Phoenix School of Academic Excellence have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

Net assets and revenues, gains and losses are classified based on state and donor imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control. These resources are not subject to state or donor-imposed stipulations.

Temporarily Restricted – Those resources subject to state or donor imposed restrictions which will be satisfied by actions of the School or passage of time.

Permanently Restricted – Those resources subject to a state or donor imposed restriction that they be maintained permanently by the School. The donors of these resources permit the School to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

As of June 30, 2011, the School only reported unrestricted net assets.

Restricted Support

Support is recognized when received. Support that is restricted by the donor/grantor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the support is recognized. All other donor restricted support is reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Support that is permanently restricted by the donor/grantor is reported as increases in permanently restricted net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, the School considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The School maintains its cash in savings and demand accounts.

Due From State

Amounts due from the state are comprised of $2,375 of classroom site funds and $1,280 of instructional improvement funds received subsequent to fiscal year end. These revenues had met the revenue recognition criteria as of June 30, 2011; however, monies were not received by year-end.

The School uses the allowance method to account for uncollectible accounts receivable. The allowance is sufficient to cover both current and anticipated future losses. Uncollectible amounts are charged against the allowance account. Management estimated an allowance of $-0- based upon the School's experience.

Property and Equipment

Assets with a unit cost greater than $300 are capitalized at historical cost, or estimated historical cost if the actual historical cost is not available. Assets donated to the School are recorded at their estimated fair value at the time received. Depreciation on building improvements, furniture and equipment is computed using the straight-line method over the estimated useful lives of the assets. Expenses associated with the repair or maintenance of buildings and improvements and furniture and equipment are not capitalized and are recognized on the statement of activities in the fiscal year incurred.

Due to State

The amount reported as due to state is comprised of an overpayment from the State of Arizona of equalization revenues received in prior fiscal years. The amount due to the state will be repaid in future years through a reduction of future state equalization revenues.

Functional Expenses

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated on the best estimates of management.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes.

The School has adopted a policy that clarifies the accounting for uncertainty in income taxes recognized in a School's financial statements. The policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this policy had no impact on the School's financial statements.

The School files as a tax-exempt School. Its 2007 through 2009 tax years are open for examination by the IRS.

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 21, 2011, the date the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

		Useful Life
Buildings and Improvements	$ 154,904	10-20 years
Leasehold Improvements	124,515	3-5 years
Furniture and Equipment and Vehicles	298,332	2-5 years
Total	577,751	
Less: Accumulated Depreciation	(519,155)	
Property and Equipment, Net	$ 58,596	

Depreciation expense for the year ended June 30, 2011 totaled $34,610.

NOTE 3 OBLIGATIONS UNDER LEASES

Operating Leases

The School leases buildings and equipment under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were $200,335 for the year ended June 30, 2011.

NOTE 3 OBLIGATIONS UNDER LEASES (CONTINUED)

Operating Leases (Continued)

The future minimum rental payments required under the operating leases at June 30, 2011 were as follows:

Year Ended June 30,	Amount
2012	$ 177,297
2013	179,543
Total Minimum Payments Required	$ 356,840

NOTE 4 NOTES PAYABLE

Notes payable at June 30, 2011 consisted of the following:

An unsecured note payable with total interest of $750 due to one of the School's vendors. Principal and interest are due December 31, 2011.	$ 29,500
An unsecured note payable with total interest of $750 due to one of the School's vendors. Principal and interest are due August 1, 2011.	15,000
An unsecured 9% note payable with principal and interest payments paid monthly through December 11, 2011.	7,281
A secured variable rate at prime plus 1% (5% at June 30, 2011) line of credit with principal payments of $4,600 paid monthly through December 31, 2011. The maximum line of credit is $33,000.	23,000
A secured 6.49% note payable with principal and interest payments paid monthly through September, 2012.	8,849
Total Notes Payable	83,630
Less: Current Portion	(81,816)
Long-term Notes Payable	$ 1,814

Interest expense on the notes payable during the fiscal year ended June 30, 2011 was $8,523.

NOTE 4 NOTES PAYABLE (CONTINUED)

Notes payable principal requirements to maturity are as follows:

Year Ended June 30,	Amount
2012	$ 81,816
2013	1,814
Total Minimum Payments	$ 83,630

NOTE 5 RESTRICTED CASH

Classroom site funds received from the State of Arizona are restricted for the following purposes at June 30, 2011:

Classroom Site Funds:	
Teacher base salary increases	$ 53,975
Performance based teacher compensation	8,153
	$ 62,128

The School did not have cash available to fund restricted cash at year end.

NOTE 6 GOING CONCERN

To support the School's cash flow needs, it was necessary to obtain funding from other sources to pay the School's accrued liabilities, including two notes from the School's vendors and the use of the School's line of credit. Due to the School's reliance on notes to support operations, other debt related financing, the current deficit reported in the School's unrestricted net assets, and the State of Arizona's budget cuts that directly affect equalization revenues, there is substantial doubt about the School's ability to continue as a going concern. Management's plan to address this concern is through marketing the Schools programs to increase student enrollment and seek future funding through grants to assist in operating its current programs. Management is also aware of its dependency on funding from other financing sources and although Management's current plan does not include cost reduction measures, if it were necessary, the School would consider cost cutting measures to continue operations.

NOTE 7 ECONOMIC DEPENDENCY

The School received more than 98% of its funding from state and federal sources. Of the $778,516 the School received in federal and state funding, 83% is unrestricted and 17% is restricted to specific programs. The School's operations are dependent on continued funding from these sources.

NOTE 8 RETIREMENT PLAN

Plan Description

The School contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2001 or (800) 621-3778.

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the School's contribution rates. For the year ended June 30, 2011, active plan members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent for retirement and 0.25 percent for long-term disability) of the members' annual covered payroll and the School was required by statute to contribute at the actuarially determined rate of 9.85 percent (8.60 percent for retirement, 1.00 percent for health insurance premium, and 0.25 percent for long-term disability) of the members' annual covered payroll. The School's contributions to the System for the year ended June 30, 2011 was $27,800.

NOTE 9 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was recorded in the amount of $60,150 to restate temporarily restricted net assets and unrestricted net assets. In the prior year, unspent classroom site funds were inappropriately recorded as temporarily restricted net assets. Classroom site funds are state apportioned fund; under generally accepted accounting principles, the state apportioned funds do not meet the definition of temporarily restricted net assets. Although classroom site funds are restricted as to use, the classroom site funds are not donations; therefore, the beginning net assets were restated to include unspent classroom site funds as unrestricted net assets.

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*

Board of Directors
Phoenix School of Academic Excellence
Phoenix, Arizona

We have audited financial statements of Phoenix School of Academic Excellence (School) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 21, 2011. 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

In planning and performing our audit, we considered the School's internal control over financial reporting, (internal control) as a basis for designing our auditing 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 Phoenix School of Academic Excellence's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as described in the accompanying schedule of findings and recommendations, we identified deficiencies in internal control that we consider to be material weaknesses.

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 a 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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2011-01 and 2011-02 to be material weaknesses.

NEXIA INTERNATIONAL
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Board of Directors
Phoenix School of Academic Excellence

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Phoenix School of Academic Excellence'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 solely for the information and use of management, the Board of Directors, others within Phoenix School of Academic Excellence and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
October 21, 2011

2011-1 Prior Period Adjustment

Condition/Context: An adjustment in the amount of $60,150 was recorded to restate net assets for state apportioned funds that were incorrectly reported as temporarily restricted net assets. The restatement had no effect on total beginning net assets and reclassified net assets previously reported as temporarily restricted net assets as unrestricted net assets.

Criteria: Management is responsible for establishing, monitoring, and maintaining internal controls, and for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

Effect: Financial statements could be misleading to the users if not in conformity with U.S. generally accepted accounting principles (GAAP).

Cause: State apportioned classroom site funds were inappropriately accounted for as temporarily restricted net assets. Although classroom site funds are restricted as to use, the classroom site funds are not donations and therefore, do not meet the criteria, under generally accepted accounting principles, for classification as temporarily restricted net assets.

Recommendation: We recommend management implement an internal control structure that would require disclosures such as these to be researched and analyzed to ensure compliance with generally accepted accounting principles.

Client Response: The School has historically reported unspent classroom site funds as temporarily restricted net assets and relied on its auditors to prepare the financial statements. The error had gone undetected and was corrected in the current fiscal year.

2011-2 Material Audit Adjustments

Condition/Context: An adjustment in the amount of $52,614 was proposed by the audit firm and subsequently recorded by the School to correctly record the use of classroom site funds during the fiscal year. The School had used classroom site funds to supplant local funds.

Criteria: Arizona Revised Statutes requires classroom site funds to be used to supplement and not supplant local funds. Management is responsible for establishing, monitoring, and maintaining internal controls to ensure funds are used in accordance with Arizona Revised Statutes.

Effect: Prior to the proposed audit adjustment the School's financial position was materially misstated, indicating cash was not restricted as to use. The adjustment corrected the financial statements to indicate all cash on-hand is restricted as to use, as well as a significant portion of cash, currently not on-hand, is also restricted as to use.

Cause: The School had lost three teachers during the year and replaced those three teachers with new teachers. The replacement teachers had a larger portion of their salary charged to the classroom site funds.

Recommendation: We recommend management implement an internal control structure that would require the use of classroom site funds be reviewed and approved prior to use to ensure funds are used to supplement rather than supplant local funds.

Client Response: The School misinterpreted A.R.S. 15-977 to allow for changes in salary when hiring new teachers based on qualifications, experience and other relevant factors even though it might give the appearance of supplanting. The school contacted the Arizona State Board for Charter Schools for guidance on the matter and proceeded on the basis that the school's interpretation was correct. The school understands its error and will implement the auditor's recommendation immediately.

Arizona State Board for Charter Schools

Legal Compliance Questionnaire

Phoenix School of Academic Excellence

Fiscal Year Ended 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.)		
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)**:		
a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date?	Yes	
b. Did DPS receive the application prior to the hire date?	Yes	
c. Prior to placement, did the school do all of the following?		
i) Document the necessity for hiring/placing the individual prior to receiving a FCC?	Yes	
ii) Obtain statewide criminal history information on the individual?	Yes	
iii) Obtain references from the applicant's current and previous employers?	Yes	
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	

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

Questions/Subject Area	Yes/No	Comments
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	
Required Filings		
1. Is the school in good standing with the following regulatory bodies:		
a. Internal Revenue Service **U.S.C. Title 26**	Yes	
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	The School had filed all required forms and did not have any delinquent payroll in income taxes outstanding.
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	
b. Arizona Department of Revenue **A.R.S. §43-401 and §43-1111**	Yes	
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	The School had filed all required forms and did not have any delinquent payroll in income taxes outstanding.
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	

Questions/Subject Area	Yes/No	Comments
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	The school was in compliance with step 1.c.i and 1.c.ii.
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	
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)**	No	
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	

Questions/Subject Area	Yes/No	Comments
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.)	No	See Classroom Site Fund Comment # 1.
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?	No	See Classroom Site Fund Comment #2.
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.		
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	

Questions/Subject Area	Yes/No	Comments
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***)**	Yes	
a. Kindergarten was in session for at least 356 hours? **A.R.S. §15-901(A)(2)**	N/A	The School only had grades 7-12.
b. Grades 1 through 3 were in session for at least 712 hours? **A.R.S. §15-901(A)(2)**	N/A	The School only had grades 7-12.
c. Grades 4 through 6 were in session for at least 890 hours? **A.R.S. §15-901(A)(2)**	N/A	The School only had grades 7-12.
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. **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.**		

Questions/Subject Area	Yes/No	Comments
3. If the School had an early (pre-) kindergarten program, based upon review of (___) 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 school year? **A.R.S. §15-901(A)(2)(a)(i) and USFRCS Memorandum No. 33**	N/A	The School only had grades 7-12.
4. Based upon review of __ 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	The School only had grades 7-12.
5. If the School had an early first grade program, based upon review of (____) 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	The School only had grades 7-12.
For questions 6 and 7, use the following sample sizes:		
SCHOOLWIDE ADM / **Student Attendance Records** **<1,000** / **5** **1,000-5,000** / **10** **>5,000** / **15**		
6. Based on review of __ 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 was based on quarter days.
7. Based upon review of 8 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)**	No	See Student Attendance Reporting Comment # 1.

Questions/Subject Area	Yes/No	Comments
For questions 8 through 12, use the following sample sizes:		
SCHOOLWIDE ADM / **Student Attendance Records** **<1,000** / **3** **1,000-5,000** / **5** **>5,000** / **7**		
8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for (____) 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	The School did not record attendance in minutes.
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 (____) 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	The School did not have any high school students enrolled in less than four subjects.
11. For schools offering an Arizona Online Instruction (AOI) Program, based upon a review of (____) AOI students' attendance records for 4 weeks:	N/A	The School did not offer an AOI Program.
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	
b. Did the hours reported to ADE agree to the guardian-approved or School computer-generated daily log?	N/A	
c. Were all pupils who participated in an AOI Program residents of this State? **A.R.S. §15-808**	N/A	
12. Based upon review of all 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	The School did not have any students withdrawn for having 10 consecutive unexcused absences.

Questions/Subject Area	Yes/No	Comments
For questions 13 and 14, use the following sample sizes:		
SCHOOLWIDE ADM / **Entries/Withdrawals** **<1,000** / **5** **1,000-5,000** / **10** **>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 school? For all other students, did membership begin with the first day of actual attendance? **ADE's** ***School Finance Procedures Manual***	Yes	
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	

Questions/Subject Area	Yes/No	Comments
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:		
SCHOOLWIDE ADM / **Days** **<1,000** / **3** **1,000-5,000** / **5** **>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.)	No	See Student Attendance Reporting Comment # 2.

Questions/Subject Area	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.

LarsonAllen LLP	October 21, 2011
Audit Firm	Date
	Principal
Preparer's Signature (Audit Firm Representative)	Title

ARIZONA STATE BOARD FOR CHARTER SCHOOLS
LEGAL COMPLIANCE QUESTIONNAIRE – SUMMARY OF COMMENTS
PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
FISCAL YEAR ENDED JUNE 30, 2011

Comment Number	Comments

PERSONNEL

None noted.

REQUIRED FILINGS

None noted.

SPECIAL EDUCATION

None noted.

CLASSROOM SITE FUND

1. Classroom Site Fund 1011 monies were identified as being used to supplant rather than supplement existing funding from all other sources. The supplanting issue was discovered as part of the audit and based on recommendations from the audit firm were corrected by the School prior to issuing the final reports.

2. The school did not have sufficient cash at year end to cover Classroom Site Fund carry forward monies.

STUDENT ATTENDANCE REPORTING

1. For one of eight junior high school students tested, absences were not calculated in accordance with the School Finance Procedures Manual; the School reported zero absence days and based on the sign in/sign out sheets, absences should have been reported as a half day absent.

2. The 40th and 100th day report did not agree to what was uploaded to the Arizona Department of Education (ADE). The School reported total membership days of 8,354.50 and absence days of 282.25. The membership and absence days reported by the School were 1,075.25 less membership days and 162.25 more absence days than the membership days uploaded and reported by ADE.

OPEN MEETING LAW

None noted.

INSURANCE REQUIREMENTS

None noted.

ARIZONA STATE BOARD FOR CHARTER SCHOOLS
LEGAL COMPLIANCE QUESTIONNAIRE – SUMMARY OF COMMENTS
PHOENIX SCHOOL OF ACADEMIC EXCELLENCE
FISCAL YEAR ENDED JUNE 30, 2011

Comment Number	Comments
TUITION	
	None noted.
RECORDS MANAGEMENT	
	None noted.