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**AGENDA ITEM: Compliance Matters – Shonto Governing Board of Education, Inc.****Issue**

Based on its submitted fiscal year 2015 audit, Shonto Governing Board of Education, Inc. (“Shonto”) has failed to comply with the Uniform System of Financial Records for Charter Schools (USFRCS) for four consecutive fiscal years by failing to establish and maintain proper internal controls over its self-insurance fund.<sup>1</sup> Pursuant to Arizona Administrative Code R7-5-504 and the Board’s [Audit & Compliance Questionnaire Follow-up Matrix](#), Shonto has been placed on the agenda for the Board’s consideration because of the self-insurance fund serious impact finding.

**Background**

This year, Shonto is undergoing its first five-year interval review under its renewal charter contract. Shonto operates one school, Shonto Preparatory Technology High School, serving grades 9-12 on the Navajo Nation. For fiscal year 2017, Shonto is reporting an estimated count of 72 students.<sup>2</sup> Shonto’s academic performance and performance under the Board’s operational and financial performance frameworks has been included in Appendix B. Additional Background Information.

**Self-Insurance Fund**

In lieu of purchasing employee health insurance coverage through an insurance carrier, Shonto has chosen to self-insure. Shonto contracts with a third party to administer its self-insurance program. The third party administrator has direct access to the self-insurance fund bank account (“Insurance Fund Account”) into which Shonto deposits monies withheld from employee paychecks for health insurance. Monthly, the third party administrator draws money from the Insurance Fund Account to make claim payments on behalf of Shonto by issuing checks directly to health care service providers.

Based on its fiscal years 2012, 2013, 2014 and 2015 audits, Shonto has failed to establish and maintain proper internal controls over its self-insurance fund. According to the fiscal year 2015 audit, Shonto: a) did not reconcile the draws taken by the third party administrator from the Insurance Fund Account to the insurance claims reports; b) did not reconcile the amounts withheld from employee payroll and, as applicable, Shonto’s contributions with the receipts posted to the Insurance Fund Account; and c) did not review the third party administrator’s census report to ensure that employees terminated by Shonto are not still included on the census report.

Pursuant to the Board’s Audit & Compliance Questionnaire Follow-up Matrix, Shonto was required to submit corrective action plans (CAP) because of the self-insurance fund finding identified in the fiscal years 2012, 2013, 2014 and 2015 audits. As part of the fiscal year 2015 audit CAP, between April 2016 and November 2016, Board staff communicated with Shonto regarding the finding. Shonto provided

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<sup>1</sup> As part of the fiscal year 2014 audit corrective action plan process, a letter was sent to Shonto on December 16, 2015 stating, in part, “Given the proximity to the single audit deadline, Board staff has determined it prudent to defer bringing Shonto to the Board for disciplinary action until after the fiscal year 2015 audit is received. Should the fiscal year 2015 audit include either or both of the serious impact findings identified above, then Shonto will be placed on the next possible Board agenda for disciplinary action” (Appendix: A. 12/16/15 Letter to Shonto). Based on the fiscal year 2015 audit, the second serious impact finding has been addressed.

<sup>2</sup> Shonto’s average daily membership for fiscal years 2012 through 2016 has been provided in Appendix: B. Additional Background Information.

Board staff with the information and documentation requested. Based upon a review of the information provided, Shonto has:

- Discussed the audit finding with its own business office staff, as well as the third party administrator and audit firm.
- Submitted a three-pronged plan to the Board to resolve the internal control issues. As part of the plan, Shonto has developed a health insurance claim invoice processing policy (“Claim Processing Policy”).
- Updated Board staff on Shonto’s efforts to implement the plan.

For fiscal year 2016, Shonto is subject to a single audit, which is due March 31, 2017. Based on communications Board staff had with Shonto’s audit firm in October 2016, initial testing conducted for the fiscal year 2016 audit supports that Shonto has implemented the Claims Processing Policy’s provision related to approving self-insurance fund expenditures prior to payment. The audit firm’s reconciliation testing will not be completed until February 2017.

In November 2016, Board staff sent a draft proposed consent agreement to Shonto’s charter representative. Today’s meeting materials include the final proposed consent agreement developed by Board staff and Shonto’s charter representative (Appendix: C. Proposed Consent Agreement). Should the Board vote today to proceed with the consent agreement, Shonto’s board will consider the consent agreement at its January 6, 2017 meeting.

### **Board Options**

Option 1: The Board may choose to conditionally withhold 10% of the charter holder’s monthly State aid apportionment and to find a basis for issuing a Notice of Intent to Revoke the charter holder’s charter contract, but direct staff to offer a consent agreement. Staff recommends the following language for consideration: I move to find Shonto Governing Board of Education, Inc. is in noncompliance with state law for its failure to establish and maintain proper internal controls for the self-insurance fund and self-insurance fund bank account in the manner prescribed by the Uniform System of Financial Records for Arizona Charter Schools and approve withholding 10% of the charter holder’s monthly State aid apportionment until compliance is demonstrated. Compliance will be demonstrated by no identification or determination of a material weakness, significant deficiency or other instance of noncompliance in the fiscal year 2016 audit signifying that the charter holder did not approve self-insurance fund expenditures prior to payment.

Further, I move that the charter holder’s failure to establish and maintain proper internal controls for the self-insurance fund and self-insurance fund bank account in the manner prescribed by the Uniform System of Financial Records for Arizona Charter Schools provides a sufficient basis to issue a Notice of Intent to Revoke the charter contract of Shonto Governing Board of Education, Inc.

All that taken into consideration, the Board will enter into a consent agreement that includes the terms and provisions of the proposed consent agreement included with the staff report provided for this agenda item. If Shonto is unwilling to agree to the terms of the consent agreement and a signed consent agreement, along with governing board minutes approving the consent agreement, are not received by January 17, 2017, then it is the Board’s decision that the 10% withholding will begin with the charter holder’s February 2017 payment and that the charter holder will be placed on the Board’s February agenda for consideration of a Notice of Intent to Revoke Shonto’s charter contract for the reasons already specified.

Option 2: The Board may choose to withhold 10% of the charter holder's monthly State aid apportionment and to issue a Notice of Intent to Revoke the charter holder's charter contract. The following language is provided for consideration: I move to find Shonto Governing Board of Education, Inc. is in noncompliance with state law for its failure to establish and maintain proper internal controls for the self-insurance fund and self-insurance fund bank account in the manner prescribed by the Uniform System of Financial Records for Arizona Charter Schools and approve withholding 10% of the charter holder's monthly State aid apportionment until compliance is demonstrated. Compliance will be demonstrated by no identification or determination of a material weakness, significant deficiency or other instance of noncompliance in the fiscal year 2016 audit signifying that the charter holder did not approve self-insurance fund expenditures prior to payment.

Further, I move to issue a Notice of Intent to Revoke the charter contract of Shonto Governing Board of Education, Inc. for failing to comply with state law and its charter contract when it failed to establish and maintain proper internal controls for the self-insurance fund and self-insurance fund bank account in the manner prescribed by the Uniform System of Financial Records for Arizona Charter Schools.

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

Option 3: The Board may choose to withhold 10% of the charter holder's monthly State aid apportionment. The following language is provided for consideration: I move to find Shonto Governing Board of Education, Inc. is in noncompliance with state law for its failure to establish and maintain proper internal controls for the self-insurance fund and self-insurance fund bank account in the manner prescribed by the Uniform System of Financial Records for Arizona Charter Schools and approve withholding 10% of the charter holder's monthly State aid apportionment until compliance is demonstrated. Compliance will be demonstrated by no identification or determination of a material weakness, significant deficiency or other instance of noncompliance in the fiscal year 2016 audit signifying that the charter holder did not approve self-insurance fund expenditures prior to payment.

## **APPENDIX A**

**12/16/15 LETTER TO SHONTO**

## Arizona State Board for Charter Schools

Physical Address:  
1616 West Adams Street, Suite 170  
Phoenix, AZ 85007



Mailing Address:  
P.O. Box 18328  
Phoenix, AZ 85009

December 16, 2015

Lemual Adson  
Shonto Governing Board of Education, Inc.  
P.O. Box 7900  
Shonto, AZ 86054  
Sent via email: [leadson@shontoprep.org](mailto:leadson@shontoprep.org)

Dear Mr. Adson:

In its letter dated May 1, 2015, the Board notified Shonto Governing Board of Education, Inc. ("Shonto") that Shonto's single audit reporting package ("audit") for fiscal year 2014 included two issues that had been identified in three consecutive audits. These issues, which the Board's *Audit & Compliance Questionnaire Follow-up Matrix* ("audit matrix") categorizes as serious impact findings, pertained to segregation of duties and self-insurance fund internal controls.

The audit matrix and Arizona Administrative Code R7-5-504 require a charter holder with a serious impact finding to appear before the Board for possible disciplinary action. The letters sent by the Board to Shonto on May 1, 2015 and October 2, 2015 referenced the audit matrix's requirements. Shonto has provided all of the information requested by Board staff through the fiscal year 2014 audit corrective action plan process. Shonto must submit its fiscal year 2015 audit by March 31, 2016. Given the proximity to the single audit deadline, Board staff has determined it prudent to defer bringing Shonto to the Board for disciplinary action until after the fiscal year 2015 audit is received. Should the fiscal year 2015 audit include either or both of the serious impact findings identified above, then Shonto will be placed on the next possible Board agenda for disciplinary action. If a complete fiscal year 2015 audit is not received by March 31, 2016, Shonto will be placed on the next possible agenda for disciplinary action for the serious impact findings identified in the fiscal year 2014 audit.

If you have any questions, please let me know.

Sincerely,

A handwritten signature in blue ink, appearing to read "Andrea Leder".

Andrea Leder  
Assistant Director of Operations & Finance

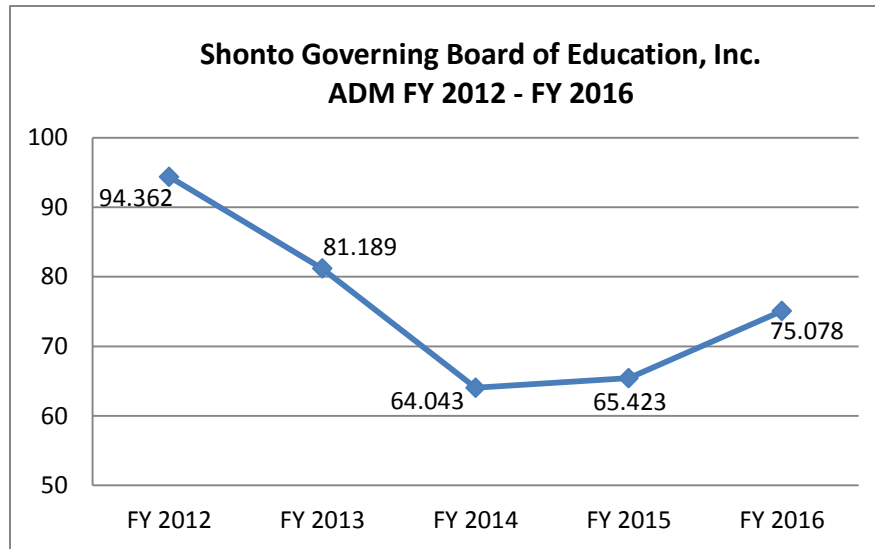
cc: Pearl Smith, Business Manager (Sent via email: [psmith@shontoprep.org](mailto:psmith@shontoprep.org))

## **APPENDIX B**

### **ADDITIONAL BACKGROUND INFORMATION**

## I. Average Daily Membership

The graph below shows Shonto's 100<sup>th</sup> day average daily membership (ADM) for fiscal years 2012 through 2016. For fiscal year 2017, Shonto is reporting an estimated count of 72 students.



## II. Academic Performance

Shonto Preparatory Technology High School received a letter grade of C and an overall rating of “Does Not Meet” the Board’s academic performance expectations for fiscal year 2014. In addition, the Arizona Department of Education (“ADE”) has identified the school as a Comprehensive (formerly known as Priority) school and Shonto was required to submit a Continuous Improvement Plan (“Plan”) to ADE and a copy of the Plan to Board staff this fiscal year. A plan was submitted on October 10, 2016 to Board staff and reviewed for administrative completeness. On November 21, 2016, Board staff notified Shonto that the Plan was administratively incomplete because it does not include all the components required by statute and ADE. Shonto is required to submit a revised Plan by December 6, 2016. Based on the academic performance, Shonto is not eligible to expand because it has been identified as a Comprehensive school.

## III. Financial Performance Dashboard

### Financial Performance

Shonto Governing Board Of Education, Inc.

#### Near-Term Measures

Going Concern

Unrestricted Days Liquidity

Default

	Fiscal Year 2014		Fiscal Year 2015	
Going Concern	No	Meets	No	Meets
Unrestricted Days Liquidity	121.45	Meets	87.69	Meets
Default	No	Meets	No	Meets

#### Sustainability Measures (Negative numbers indicated by parentheses)

Net Income

Fixed Charge Coverage Ratio

Cash Flow (3-Year Cumulative)

Cash Flow Detail by Fiscal Year

	Fiscal Year 2014			Fiscal Year 2015		
Net Income	(\$1,595,953)	Does Not Meet		(\$2,652,760)	Does Not Meet	
Fixed Charge Coverage Ratio	–			–		
Cash Flow (3-Year Cumulative)	\$1,446,644	Does Not Meet		(\$894,493)	Does Not Meet	
Cash Flow Detail by Fiscal Year	FY 2014	FY 2013	FY 2012	FY 2015	FY 2014	FY 2013
	(\$1,383,454)	\$1,311,913	\$1,518,185	(\$822,952)	(\$1,383,454)	\$1,311,913

Does Not Meet Board's Financial Performance Expectations

## IV. Operational Performance Dashboard

Due to the serious impact findings identified in the fiscal years 2014 and 2015 audits, Shonto does not meet the Board's operational performance expectations.

Operational Performance Dashboard			
Click on any of the measures below to see more information.			
Measure	2015	2016	2017
1.a. Does the delivery of the education program and operation reflect the essential terms of the educational program as described in the charter contract?	Meets	Meets	--
Educational Program - Essential Terms	No issue identified	No issue identified	--
1.b. Does the charter holder adhere with applicable education requirements defined in state and federal law?	Meets	Does Not Meet	--
Services to Student with Disabilities	No issue identified	No issue identified	--
Instructional Days/Hours	No issue identified	No issue identified	--
Data for Achievement Profile	No issue identified	No issue identified	--
Mandated Programming (State/Federal Grants)	No issue identified	ADE Monitoring CAP - Federal Title Funds	--
2.a. Do the charter holder's annual audit reporting packages reflect sound operations?	Falls Far Below	Falls Far Below	--
Timely Submission	Yes	Yes	--
Audit Opinion	Unqualified	Unqualified	--
Completed 1st Time CAPs	No issue identified	No issue identified	--
Second-Time/Repeat CAP	No issue identified	No issue identified	--
Serious Impact Findings	Segregation of Financial Duties Fiscal Matters	Fiscal Matters	--
Minimal Impact Findings (3+ Years)	Oral Quotes	Accounting Records	--
2.b. Is the charter holder administering student admission and attendance appropriately?	Meets	Meets	--
Estimated Count/Attendance Reporting	No issue identified	No issue identified	--
Tuition and Fees	No issue identified	No issue identified	--
Public School Tax Credits	No issue identified	No issue identified	--
Attendance Records	No issue identified	No issue identified	--
Enrollment Processes	No issue identified	No issue identified	--
2.c. Is the charter holder maintaining a safe environment consistent with state and local requirements?	Meets	Meets	--
Facility/Insurance Documentation	No issue identified	No issue identified	--
Fingerprinting	No issue identified	No issue identified	--
2.d. Is the charter holder transparent in its operations?	Meets	Meets	--
Academic Performance Notifications	No issue identified	No issue identified	--
Teacher Resumes	No issue identified	No issue identified	--
Open Meeting Law	No issue identified	No issue identified	--
Board Alignment	No issue identified	No issue identified	Inconsistency in Reporting
2.e. Is the charter holder complying with its obligations to the Board?	Meets	Meets	--
Timely Submissions	No issue identified	No issue identified	Financial Performance Response
Limited Substantiated Complaints	No issue identified	No issue identified	--
Favorable Board Actions	No issue identified	No issue identified	--
2.f. Is the charter holder complying with reporting requirements of other entities to which the charter holder is accountable?	Meets	Meets	--
Arizona Corporation Commission	No issue identified	No issue identified	--
Arizona Department of Economic Security	No issue identified	No issue identified	--
Arizona Department of Education	No issue identified	No issue identified	--
Arizona Department of Revenue	No issue identified	No issue identified	--
Arizona State Retirement System	No issue identified	No issue identified	--
Equal Employment Opportunity Commission	No issue identified	No issue identified	--
Industrial Commission of Arizona	No issue identified	No issue identified	--
Internal Revenue Service	No issue identified	No issue identified	--
U.S. Department of Education	No issue identified	No issue identified	--
3. Is the charter holder complying with all other obligations?	Meets	Meets	--
Judgments/Court Orders	No issue identified	No issue identified	--
Other Obligations	No issue identified	No issue identified	--
<b>OVERALL RATING</b>	<b>Does Not Meet Operational Standard</b>	<b>Does Not Meet Operational Standard</b>	--
<b>BOARD EXPECTATIONS</b>	--	--	<b>Does Not Meet Operational Expectations</b>

Last Updated: 2016-11-28 15:37:06



## **APPENDIX C**

### **PROPOSED CONSENT AGREEMENT**

## **CONSENT AGREEMENT**

This Consent Agreement (“Agreement”) is made by and between Shonto Governing Board of Education, Inc. (“Charter Operator”), a nonprofit corporation organized under the laws of the Navajo Nation and operating Shonto Preparatory Technology High School, a charter school, and the Arizona State Board for Charter Schools (“Board”) collectively referred to herein as the “Parties”.

## **JURISDICTION**

The Board is charged by Arizona Revised Statutes (“A.R.S.”) §§ 15-182(E)(1) and (2) and 15-183(R) with granting charter status to qualifying applicants for charter schools and exercising general supervision over the charter schools it sponsors. A charter is effective for fifteen years. A.R.S. § 15-183(I). The charter may be renewed for successive periods of twenty years. A.R.S. § 15-183(J). The Board may submit a request to the Arizona Department of Education to withhold up to ten percent of the monthly apportionment of state aid that would otherwise be due a charter school if the Board determines at a public meeting that the charter school is not in compliance with federal law, with the laws of this state or with its charter. A.R.S. § 15-185(H). The Board may revoke a charter of a school it sponsors at any time if the charter school breaches one or more provisions of its charter or if the Board determines that the charter holder has failed to comply with charter school statutes or any provision of law from which the charter school is not exempt. A.R.S. § 15-183(I)(3).

## **RECITALS**

1. The Charter Operator operates Shonto Preparatory Technology High School (“the School”), a charter school, pursuant to a renewal charter contract (“Charter”) executed on June 7, 2012 between the Charter Operator and the Board.

2. Pursuant to A.R.S. § 15-183 and the Charter, the Board sponsors the Charter Operator to operate one school site to serve students in grades nine through twelve.
3. Lemual Adson is the Charter Representative and person authorized to execute documents on behalf of the Charter Operator.
4. The Charter of the Charter Operator and the Board requires that the Charter Operator comply with all state, federal and local laws applicable to the operation of a charter school.
5. A.R.S. § 15-183(E)(6) and the Charter of the Charter Operator and the Board require that the Charter Operator comply with the requirements of the Uniform System of Financial Records for Arizona Charter Schools (“USFRCS”)<sup>1</sup>. The Board has not approved any exceptions for the Charter Operator to these requirements.
6. A.R.S. §§ 15-183(E)(6) and 15-914 and the Charter of the Charter Operator and the Board require that the Charter Operator undergo an annual financial and compliance single audit, including the completion of a USFRCS compliance questionnaire and a procurement compliance questionnaire, by an independent certified public accountant (“Annual Audit”).
7. Under the USFRCS, an effective accounting system is essential in providing accurate and timely financial information; essential to an effective accounting system is a system of internal control that will provide a plan of organization, adequate internal checks and balances, and sufficient supporting records to ensure the safeguarding of assets and the accuracy and reliability of financial records.
8. The USFRCS states disbursements from employee insurance program

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<sup>1</sup> The USFRCS has been developed by the Office of the Auditor General pursuant to A.R.S. § 15-183(E)(6). The USFRCS prescribes the minimum internal control structure policies and procedures for charter schools for accounting, financial reporting, budgeting, attendance reporting, and various legal compliance requirements. <http://www.azauditor.gov/sites/default/files/USFRCS.pdf>.

withholding accounts should be by check and, except for the interest remittance, should be made payable only to the insurance carriers or to individuals for refunds of insurance.

9. The USFRCS states the Charter Operator should prepare a written bank reconciliation monthly for each bank account. The Charter Operator's reconciliation procedures should include comparing canceled checks to the check register to ensure that the number, date, payee and amount are in agreement and comparing the date and amount of each deposit shown on the bank statement to the Charter Operator's records.

10. Instead of purchasing employee health insurance coverage through an insurance carrier, the Charter Operator has chosen to self-insure. To administer the Charter Operator's self-insurance program, including the processing and payment of claims, the Charter Operator contracts with a third party.

11. The third party administrator has direct access to the self-insurance fund bank account ("Insurance Fund Account") into which the Charter Operator deposits monies withheld from employee paychecks for health insurance.

12. The Charter Operator's Annual Audit for fiscal years ending June 30, 2012, 2013, 2014 and 2015 found that the third party administrator monthly draws money from the Insurance Fund Account to make claim payments on behalf of the Charter Operator by issuing checks directly to health care service providers.

13. The Charter Operator's Annual Audit for fiscal years ending June 30, 2012, 2013, 2014 and 2015 found that the Charter Operator: a) did not reconcile the draws taken by the third party administrator from the Insurance Fund Account to the insurance claims reports; b) did not reconcile the amounts withheld from employee payroll and, as applicable, the Charter Operator's contributions with the receipts posted to the Insurance Fund Account; and c) did not review the

third party administrator's census report to ensure that employees terminated by the Charter Operator are not still included on the census report.

14. The Charter Operator breached its Charter and A.R.S. § 15-183(E)(6) when it failed to establish and maintain proper internal controls for the self-insurance fund and Insurance Fund Account as identified in the Annual Audit for fiscal years ending June 30, 2012, 2013, 2014 and 2015.

15. After the failure to establish and maintain proper internal controls was again identified in the Annual Audit for the fiscal year ending June 30, 2015, the Board required the Charter Operator to take further corrective action.

16. The Charter Operator submitted a three-pronged plan to the Board to resolve the internal control issues. As part of the plan, the Charter Operator developed a health insurance claim invoice processing policy ("Claim Processing Policy").

17. Based on communications Board staff had with the Charter Operator's audit firm, initial testing conducted for the Annual Audit for the fiscal year ending June 30, 2016 supports that the Charter Operator has implemented the Claims Processing Policy's provision related to approving self-insurance fund expenditures prior to payment. The audit firm's reconciliation testing will not be completed until February 2017.

18. At its public meeting held on December 12, 2016, the Board determined that it has a sufficient basis to issue a Notice of Intent to Revoke the Charter of the Charter Operator on the basis of the Charter Operator's failure to comply with state law and with its Charter when it failed to establish and maintain proper internal controls for the self-insurance fund and Insurance Fund Account in the manner prescribed by the USFRCS as demonstrated by the Charter Operator's last four Annual Audits. The Board also passed a motion to withhold ten percent of

the monthly apportionment of state aid that would otherwise be due the Charter Operator. The Board's motion provided for the Parties to work toward entering into a consent agreement in lieu of a revocation proceeding and hearing, and the withholding of ten percent of the Charter Operator's monthly apportionment of state aid.

### **AGREEMENT TERMS AND CONDITIONS**

The Parties agree as follows:

19. Because of the Board's determination that the Charter Operator is not in compliance with federal law, with the laws of this state or with its Charter, the Charter Operator is subject to a withholding of ten percent of its monthly apportionment of state aid and the revocation and termination of its Charter.

20. A.R.S. §§ 15-183(Q) and 41-1092.07(F)(5) provide that informal disposition of this matter may be made by stipulation, agreed settlement, consent order or default.

21. In consideration of the Parties foregoing their option to proceed with the charter revocation proceedings and hearing, it is in the best interests of the Board and the Charter Operator to mutually resolve this matter.

The Charter Operator agrees as follows:

22. The Charter Operator waives its right to a charter revocation hearing and to provide its defense, except as set forth herein, on the Recitals set forth in this Agreement.

23. By entering into this Agreement, the Charter Operator agrees to the Recitals set forth in this Agreement and understands that it cannot contest any of the Recitals in the future.

24. This Agreement does not limit other actions the Board may take under the law if it determines that the Charter Operator is not in compliance with its Charter or with state or federal law.

25. The Charter Operator shall ensure it establishes and maintains proper internal controls for the self-insurance fund and the Insurance Fund Account. Compliance with this provision shall be demonstrated by no identification or determination of a material weakness, significant deficiency or other instance of noncompliance based on the Charter Operator's Annual Audits for the fiscal years ending June 30, 2017 through 2021 signifying any of the following:

- a. The Charter Operator did not approve self-insurance fund expenditures prior to payment.
- b. The Charter Operator did not reconcile the draws from the Insurance Fund Account to the claims reports.
- c. The Charter Operator did not reconcile the checks issued by the Charter Operator from payroll with the receipts posted to the Insurance Fund Account.
- d. The Charter Operator did not review the third party administrator's census report to ensure that employees terminated by the Charter Operator are not still included.

26. By December 31, 2016, the Charter Operator's governing board shall approve the Claim Processing Policy, and the Charter Operator shall provide the Board with a copy of the approved Claim Processing Policy and the minutes from the meeting at which the Charter Operator's governing board approved the Claim Processing Policy.

27. The Charter Operator shall ensure the audited information used by the Board to determine the Charter Operator's fiscal year 2017 compliance with this Agreement reflects the internal controls recently instituted by the Charter Operator and specified in paragraph 16 of this Agreement. Should the audit firm's initial testing identify the occurrence of one or more of the conditions specified in paragraph 25 of this Agreement due to the sample's inclusion of self-insurance fund activities that occurred prior to the Charter Operator's full implementation of the plan

specified in paragraph 16 of this Agreement, the Charter Operator shall contract with its audit firm to conduct additional testing to determine and disclose the effect the plan specified in paragraph 16 of this Agreement had on the Charter Operator's performance; the additional testing must be completed so as to allow the results to be provided to the Board no later than March 31, 2018, which is the Charter Operator's deadline for submitting its Annual Audit for the fiscal year ending June 30, 2017.

The Parties agree as follows:

28. If the Charter Operator fails to comply with the terms and conditions of this Agreement, the Board may, on no less than thirty (30) calendar days' notice, hold a hearing at which time the Board will receive information to determine whether evidence exists that the Charter Operator failed to comply with the terms and conditions of this Agreement. The Charter Operator shall be entitled to present all appropriate evidence at this hearing. If the Board determines that a breach of this Agreement has occurred, the Board may revoke the Charter Operator's Charter to operate the School and terminate its Charter for breach of this Agreement and of its Charter and the state laws identified in the Recitals.

29. The Parties acknowledge and agree that Charter Operator's Insurance Fund Account is a self-insurance fund that covers employees of the School and employees of a federally funded grant school separately operated by Charter Operator. The Board agrees that any action taken by the Board under this Agreement shall not effect, limit, constrain, or deny Charter Operator's right, title, or obligation to control and manage the Insurance Fund Account for the benefit of insured employees who are not employees of the School.

30. This Agreement is not binding on either party until both the Board and the Charter Operator's governing board accept it by the number of votes necessary to pass a measure at a public meeting. This Agreement is effective immediately upon its approval and execution by the



authorized representatives of the Charter Operator and the Board.

31. If either party rejects this Agreement or any part of it, then this Agreement is null and void, and not binding on the Parties and the Board may proceed with the charter revocation hearing and may direct the Arizona Department of Education to begin withholding ten percent of the Charter Operator's monthly state aid apportionment.

32. The Charter Operator has the legal right to consult with an attorney prior to entering into this Agreement.

33. The Parties shall be responsible for their own attorneys' fees and costs, if any, in this matter.

#### ARIZONA STATE BOARD FOR CHARTER SCHOOLS

\_\_\_\_\_  
By: Kathy Senseman  
President, Arizona State Board for Charter Schools  
Date: \_\_\_\_\_

#### SHONTO GOVERNING BOARD OF EDUCATION, INC. AND SHONTO PREPARATORY TECHNOLOGY HIGH SCHOOL

\_\_\_\_\_  
By: Lemual Adson  
Charter Representative, Shonto Governing Board of Education, Inc.  
Date: \_\_\_\_\_

COPY mailed this  
\_\_\_\_\_ day of \_\_\_\_\_, 20\_\_ to:

Shonto Governing Board of Education, Inc.  
Attention: Lemual Adson, Charter Representative  
P.O. Box 7900  
Shonto, AZ 86054

By \_\_\_\_\_