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**AGENDA ITEM: Compliance Matters – StarShine Academy****Issue**

StarShine Academy (“StarShine”) has not yet submitted its fiscal year 2016 audit reporting package (“audit”) to the Board. In November, the Board found StarShine in noncompliance with state law and its charter contract, but was unable to withhold funds because the charter holder had filed for bankruptcy protection. The bankruptcy filing does not preclude the Board from issuing a notice of intent to revoke the charter.

**Board Policy**

In accordance with the Board’s [Policy Statement on Board Notification of Six Months of Non-compliance](#), staff is to bring charter holders having state equalization assistance withheld for failure to timely submit their annual financial statement and compliance audits to the Board for consideration of an issuance of a Notice of Intent to Revoke the charter after two months of withholding.

**StarShine Academy**

StarShine operates one school with the same name, serving grades K-12 in Phoenix. For fiscal year 2017, StarShine’s 40<sup>th</sup> day ADM is 156.423.<sup>1</sup> StarShine’s academic performance and performance under the Board’s operational and financial performance frameworks has been included in Appendix A: Additional Background Information.

**Fiscal Year 2016 Audit**

On November 21, 2016, the Board passed a motion finding StarShine in noncompliance with state law and its charter contract for failure to submit its fiscal year 2016 audit. On November 21<sup>st</sup>, an email describing the Board’s action was sent to StarShine. The November 21<sup>st</sup> email also included the following: “The motion further indicated that had the bankruptcy filing not prevented it, the Board would have withheld 10% of StarShine Academy’s monthly state aid apportionment until the fiscal year 2016 audit was submitted to the Board.”

At the January meeting, StarShine indicated the bankruptcy filing requires additional reporting, as well as some additional complications, which have slowed up the processing of the audit. StarShine stated it was on track to complete the audit by January 30, 2017. On February 2, 2017, StarShine’s auditor indicated that fieldwork was just about done. He anticipated the audit will be completed by February 8<sup>th</sup>.

**Audit Submission History**

Having reviewed the charter holder’s prior compliance with submitting its audits, Board staff found StarShine timely submitted its audits for fiscal years 2011 through 2014. StarShine submitted its fiscal year 2015 audit about two months late. Due to the bankruptcy filing, the Board was unable to withhold funds, but the Board did make a finding of noncompliance.

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<sup>1</sup> StarShine’s ADM for fiscal years 2012 through 2016 has been provided in Appendix A: Additional Background Information.

## **Board Options**

Option 1: The Board may vote to issue a Notice of Intent to Revoke StarShine Academy's charter contract. Staff recommends the following language: The information contained in the audit is one of the primary means the Board has to meet its statutory oversight and administrative responsibilities for the schools it sponsors. Although this is a matter that could be quickly corrected, it represents a material breach of the charter contract. Therefore, I move to issue a Notice of Intent to Revoke the charter contract of StarShine Academy for failing to timely submit the fiscal year 2016 audit reporting package as required by A.R.S. §15-183(E)(6), A.R.S. §15-914 and the charter contract.

- Within 48 hours of receipt of the Notice the charter operator shall notify staff and parents and 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 to the Board 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 and guardians of all students registered with the school.

Option 2: The Board may decide to take no further action at this time and direct staff to bring this matter back to the Board at its March 2017 meeting for further consideration should StarShine Academy still not have submitted its fiscal year 2016 audit.<sup>2</sup>

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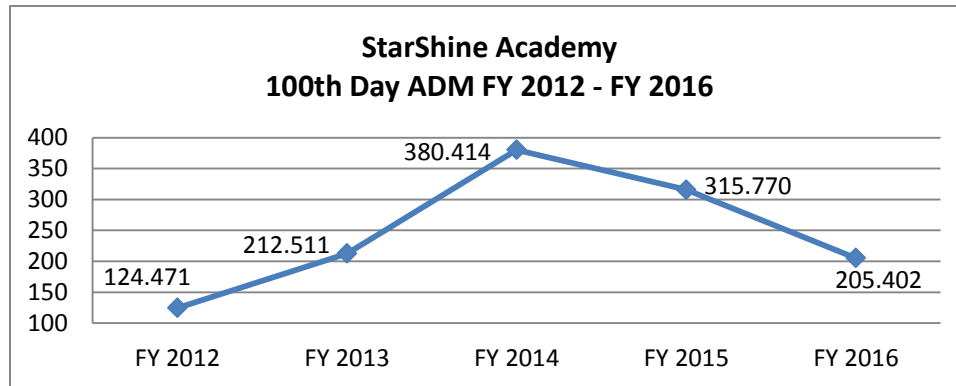
<sup>2</sup> Under this option, the Board's previous finding of noncompliance would continue to be in effect.

**APPENDIX A:**

**ADDITIONAL BACKGROUND INFORMATION**

## I. Average Daily Membership

The graph below shows StarShine’s 100<sup>th</sup> day average daily membership (ADM) for fiscal years 2012 through 2016. For fiscal year 2017, StarShine’s 40<sup>th</sup> day ADM is 156.423.



## II. Academic Performance

The Board’s academic framework uses two measures to calculate overall academic ratings, letter grades and state designations for school improvement. There has been a moratorium on letter grades until school year 2016-2017; therefore, the Board has not calculated overall ratings for fiscal years 2015 and 2016. As it relates to school improvement, the school operated by StarShine (“School”) has been designated for school improvement in fiscal year 2017.

The School received a letter grade of D-ALT for fiscal year 2014 and is currently not designated as an alternative school by the Arizona Department of Education.

The School’s fiscal year 2016 AzMERIT data is below, along with the State averages:

2016 AzMERIT ELA 6%	2016 AzMERIT Math <2%
State Average ELA (35%)	State Average Math (35%)

## III. Financial Performance Dashboard

### Financial Performance

StarShine Academy

#### Near-Term Measures

	Fiscal Year 2014		Fiscal Year 2015	
Going Concern	No	Meets	Yes	Falls Far Below
Unrestricted Days Liquidity	20.97	Does Not Meet	1.39	Falls Far Below
Default	No	Meets	No	Meets

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

Net Income	(\$1,217,279)	Does Not Meet	(\$803,396)	Does Not Meet
Fixed Charge Coverage Ratio	(0.01)	Does Not Meet	0.39	Does Not Meet
Cash Flow (3-Year Cumulative)	\$94,573	Meets	(\$75,598)	Does Not Meet

Cash Flow Detail by Fiscal Year

	FY 2014	FY 2013	FY 2012	FY 2015	FY 2014	FY 2013
	\$29,784	\$126,514	(\$61,725)	(\$231,896)	\$29,784	\$126,514

Does Not Meet Board’s Financial Performance Expectations

## IV. Operational Performance Dashboard

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	Meets	--
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	No issue identified	--
2.a. Do the charter holder's annual audit reporting packages reflect sound operations?	Does Not Meet	Does Not Meet	--
Timely Submission	Yes	No	No - Not Yet Submitted
Audit Opinion	Unqualified	Unqualified	--
Completed 1st Time CAPs	No issue identified	No issue identified	--
Second-Time/Repeat CAP	Financial Record Retention	No issue identified	--
Serious Impact Findings	No issue identified	No issue identified	--
Minimal Impact Findings (3+ Years)	No issue identified	AFR Filing	--
2.b. Is the charter holder administering student admission and attendance appropriately?	Meets	Meets	--
Estimated Count/Attendance Reporting	No issue identified	No issue identified	ADE ADM Audit
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	--
2.e. Is the charter holder complying with its obligations to the Board?	Does Not Meet	Does Not Meet	--
Timely Submissions	Audit CAP	Complaint Response	School Improvement Plan
Limited Substantiated Complaints	No issue identified	No issue identified	--
Favorable Board Actions	Heightened Academic Monitoring	Finding of Noncompliance to Withhold 10%	Finding of Noncompliance to Withhold 10%
2.f. Is the charter holder complying with reporting requirements of other entities to which the charter holder is accountable?	Does Not Meet	Does Not Meet	--
Arizona Corporation Commission	No issue identified	Audit CAP	--
Arizona Department of Economic Security	No issue identified	No issue identified	--
Arizona Department of Education	AFR Filing (Audit Repeat)	No issue identified	--
Arizona Department of Revenue	No issue identified	No issue identified	--
Arizona State Retirement System	Funds Garnished	Funds Garnished	--
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>	Meets Operational Standard	Meets Operational Standard	--
<b>BOARD EXPECTATIONS</b>	--	--	--

*Last Updated: 2016-12-08 10:39:06*