

**Primavera Technical Learning Center
Chandler, Arizona**

Report

June 30, 2013

**Primavera Technical Learning Center
Chandler, Arizona**

Independent Auditor's Reports, Financial Statements, and Supplemental Information

June 30, 2013

Primavera Technical Learning Center
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June 30, 2013

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KLECKA, WILKINS & KLECKA

• CERTIFIED PUBLIC ACCOUNTANTS •

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635 East Maryland Avenue
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Primavera Technical Learning Center

We have audited the accompanying financial statements of Primavera Technical Learning Center (an Arizona nonprofit corporation) which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Primavera Technical Learning Center as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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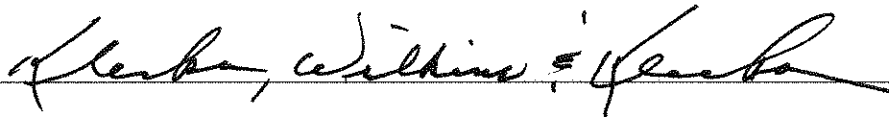
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Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of Primavera Technical Learning Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Primavera Technical Learning Center's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Glen B. Williams". The signature is written in a cursive style and is positioned above a horizontal line.

Phoenix, Arizona
November 13, 2013

Primavera Technical Learning Center
Statement of Financial Position
June 30, 2013

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 17,700,272
Investments in Securities	31,316,876
Grants and Funds Receivable, Net of \$0 Allowance for Doubtful Accounts	<u>695,418</u>
Total Current Assets	<u>49,712,566</u>
Property and Equipment, Net	<u>3,996,065</u>
TOTAL ASSETS	<u><u>\$ 53,708,631</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 143,587
Accrued Expenses	7,342,775
Unearned Revenue Due to State	<u>8,666,942</u>
Total Current/Total Liabilities	<u>16,153,304</u>
Net Assets	
Unrestricted	36,205,581
Temporarily Restricted	<u>1,349,746</u>
Total Net Assets	<u>37,555,327</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 53,708,631</u></u>

See Accompanying Notes and Auditor's Report

Primavera Technical Learning Center
Statement of Activities
For the Year Ended June 30, 2013

	Unrestricted	Temporarily	Total
	Net Assets	Restricted	Net Assets
	<u>Net Assets</u>	<u>Net Assets</u>	<u>Net Assets</u>
Revenues			
State of Arizona Equalization Funds	\$ 29,999,316	\$ -	\$ 29,999,316
Other State Revenues	552,023	1,582,273	2,134,296
Federal Awards	388,664	-	388,664
Interest and Dividend Income	1,009,932	-	1,009,932
Other Revenues	31,303	-	31,303
Net Assets Released From Restrictions	<u>1,303,173</u>	<u>(1,303,173)</u>	<u>-</u>
Total Revenues	<u>33,284,411</u>	<u>279,100</u>	<u>33,563,511</u>
Expenses			
Program	26,714,899	-	26,714,899
Management and General	<u>4,533,023</u>	<u>-</u>	<u>4,533,023</u>
Total Expenses	<u>31,247,922</u>	<u>-</u>	<u>31,247,922</u>
Gain on Fair Market Value of Investments	389,917	-	389,917
Loss on Disposal of Equipment	<u>(12,922)</u>	<u>-</u>	<u>(12,922)</u>
Increase in Net Assets	2,413,484	279,100	2,692,584
Net Assets at June 30, 2012	<u>33,792,097</u>	<u>1,070,646</u>	<u>34,862,743</u>
Net Assets at June 30, 2013	<u>\$ 36,205,581</u>	<u>\$ 1,349,746</u>	<u>\$ 37,555,327</u>

See Accompanying Notes and Auditor's Report

Primavera Technical Learning Center
Statement of Cash Flows
For the Year Ended June 30, 2013

Cash Flows Provided (Used) by Operating Activities:	
Increase in Net Assets	\$ 2,692,584
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities:	
Depreciation	367,402
Loss on Disposal of Equipment	12,922
Investment Gains	(389,917)
Changes in Assets and Liabilities:	
Grants and Funds Receivable	(166,144)
Accounts Payable	6,528,173
Unearned Revenue Due to State	4,783,065
Accrued Expenses	<u>553,797</u>
Net Cash Provided by Operating Activities	<u><u>14,381,882</u></u>
Cash Flows Provided (Used) by Investing Activities:	
Proceeds from Sale of Equipment	60,000
Purchase of Investments	(842,289)
Purchase of Property and Equipment	<u>(1,207,469)</u>
Net Cash Used by Investing Activities	<u>(1,989,758)</u>
Net Increase in Cash and Cash Equivalents	12,392,124
Cash and Cash Equivalents at June 30, 2012	<u>5,308,148</u>
Cash and Cash Equivalents at June 30, 2013	<u><u>\$ 17,700,272</u></u>
<u>Supplemental Information:</u>	
Cash Paid for Interest	<u><u>\$ -</u></u>
Cash Paid for Income Taxes	<u><u>\$ -</u></u>

See Accompanying Notes and Auditor's Report

Primavera Technical Learning Center
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 1 – NATURE OF OPERATIONS:

Primavera Technical Learning Center (the School) is an Arizona non-profit corporation formed in February 2001. The School agreed to a fifteen year charter with the Arizona State Board for Charter Schools (ASBCS). The charter is subject to renewal June 30, 2016 with the consent of both parties. The School began operations as a classroom-based charter high school in Chandler, Arizona in August 2001. In 2003, the ASBCS approved the School's application to begin an internet-based campus providing online instruction. The online program is authorized to serve the educational needs of all students in sixth through twelfth grades in both metropolitan and rural Arizona, and is ideally suited to educate students who are at risk of not graduating, from those with behavioral issues, those identified as dropouts, those who are pregnant and/or teen parents, those adjudicated as youthful offenders, and those with a poor academic standing as demonstrated by their failure to maintain with their cohort group. The School served 15,942 individual students during the 2012-13 school year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The financial statements use the accrual method of accounting and the presentation follows the recommendations for the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) in FASB ASC 958. Under FASB ASC 958, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The School has evaluated subsequent events through November 13, 2013, which is prior to the date the financial statements were available to be issued.

Cash Equivalents

For purposes of the statement of cash flows, all unrestricted highly liquid investments with an initial maturity of three months or less and not held in investment accounts are considered to be cash equivalents.

Investments

The School accounts for its investments by reporting them on the statement of financial position at their fair value. Investment income and realized and unrealized gains and losses on investments are recognized on the statement of activities as increases or decreases in unrestricted net assets due to the absence of any donor-imposed restrictions.

Grants and Funds Receivable

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

Property and Equipment

Leasehold improvements with a cost of \$3,000 or more and furniture and equipment with both a cost of \$300 or more and an estimated life of one year or more are capitalized. Assets are stated at cost or fair market value at date of gift, if contributed. Depreciation is calculated over the estimated useful lives of the assets on a straight-line basis of five years for furniture and equipment; fifteen years for buildings and improvements; and three to five years for software.

Maintenance and repairs are charged to expense as incurred. The costs of additions and improvements are capitalized and depreciated over the remaining useful lives of the assets. The costs and accumulated depreciation of assets sold or retired are removed from the accounts and any gain or loss is recognized in the year of disposal.

Revenue Recognition

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

Contributions

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

Primavera Technical Learning Center
Notes to Financial Statements
For the Year Ended June 30, 2013

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

Use of Estimates

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

Advertising

Advertising and marketing costs are expensed as incurred.

Donated Services

Volunteers (primarily parents of attending students) have donated their labor to the School; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

Functional Expenses

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

Income Taxes

The School qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code whose revenue is derived primarily from state equalization funds for charter schools, grants and contributions. Consequently, the School is generally exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The School is not a private foundation. The School has adopted FASB ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

For the year ended June 30, 2013, the School had no material uncertain tax positions to be accounted for in the financial statements under the rules, and had no interest or penalties assessed by income taxing authorities. Management believes that the School is no longer subject to income tax examinations for years prior to the year ended June 30, 2010.

NOTE 3 – RESTRICTED ASSETS:

Temporarily restricted net assets consist of Arizona Classroom Site Funds totaling \$1,193,476 in cash and \$156,270 in funds receivable. These funds are available only for restricted purposes designated in A.R.S. §15-977.

NOTE 4 – INVESTMENTS:

The School's investments at June 30, 2013 are comprised of primarily stocks and bonds held in an investment account managed by a local bank. Money market funds, mutual funds, and exchange traded funds are Level 1 assets measured at fair value in accordance with current accounting standards. Level 1 assets are measured based on quoted prices for identical assets in a liquid market. Real estate investment trusts are Level 2 assets. The value of the School's Level 2 assets is based on prices quoted by the School's broker in inactive markets. The investment funds at June 30, 2013 are summarized as follows:

<u>Investment</u>	<u>Fair Value</u>
Money Market Funds	\$ 1,305,829
Government and Municipal Bonds	3,946,302
Corporate Bonds	6,120,658
Equities	18,004,567
Real Estate Investment Trusts	1,939,520
Total	<u>\$ 31,316,876</u>

NOTE 5 – PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following at June 30, 2013:

Office Building	\$ 1,570,441
Building Improvements	1,128,521
Construction in Progress	1,174,511
Land	338,100
Furniture and Equipment	1,161,083
Vehicles	37,623
Software	153,790
Total Property and Equipment	5,564,069
(Less) Accumulated Depreciation	<u>(1,568,004)</u>
Property and Equipment, Net	<u>\$ 3,996,065</u>

Primavera Technical Learning Center
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 6 – FUNDS DUE TO STATE:

The School received state equalization payments during the year based on estimates of student counts. During the year ended June 30, 2013, ADE determined that total payments for student attendance in prior years exceeded earned payments by \$8,666,942. ADE will withhold the amount ratably from equalization revenue in future years.

NOTE 7 – CONCENTRATIONS OF RISK:

Revenue Sources

Substantially all of the School's revenues for the year ended June 30, 2013 were derived from funds passed through by Arizona state agencies. Collection from the State of Arizona is reasonably assured, provided that the School complies with contract terms stipulated in its contract with the ASBCS. The School's compliance with certain laws and regulations is subject to review by the Arizona Department of Education and the ASBCS. Although such reviews could result in a reduction of state equalization assistance, in the opinion of the School's management, any reductions that may result are not expected to be significant. Changes in state funding levels for charter schools could have a significant impact on the School's ability to operate.

Cash

The School maintains a substantial balance in its checking account deposits. During the year ended June 30, 2013, the Federal Deposit Insurance Corporation (FDIC) insured \$250,000 of the School's deposits.

Investments

The School maintains a substantial balance in its investment account. The Securities Investor Protection Corporation insures \$500,000 of the School's account against the insolvency of the School's broker.

**NOTE 8 – LEASE AND CURRICULUM
AGREEMENTS:**

American Virtual Academy (Related Party)

The School contracts with The American Virtual Academy, Inc. (AVA) (formerly the Institute for Educational Development) for software and materials. AVA is wholly owned by two of the directors of the School. The license contract calls for a single annual price paid in monthly installments for curriculum services. The price is independent of the number of students enrolled or classes available for enrollment. The transfer price was last determined in October 2010 by an accounting firm in accordance with IRC §482 using the Residual Profit Split

method. The result of the study showed that the lower and upper quartile annual transfer prices were calculated between \$14,794,363 and \$16,092,484. The term of the contract is continuous until terminated by either the School or AVA with a ninety day notice. During the year ended June 30, 2013, the School recognized \$15,587,876 in licensing and database expenses, and paid AVA \$9,169,356 including current and past due fees.

The School shares its building with AVA. The building arrangement leads certain vendors of AVA to request payments from the School for expenses incurred by AVA. Certain vendors of the School also request payments from AVA for expenses incurred by the School. The School regularly reimburses and requests reimbursement from AVA for such expenses. At June 30, 2013, the School owed AVA \$130,785 for amounts paid by AVA for School expenses. Such amounts are included in accounts payable.

NOTE 9 – SAVINGS PLAN:

The School sponsors a retirement plan trust called the Primavera Technical Learning Center Savings Plan (the "plan"). The plan covers most School employees, whose contributions to the plan are generally tax-deferred. As of June 30, 2013, eligible employees may contribute up to \$17,500 of compensation annually, and eligible employees over age 50 may contribute an additional \$5,500. The School accrued contributions of approximately \$50,000 to the plan under a matching program during the year ended June 30, 2013, all of which was accrued to the plan at year end.

Primavera Technical Learning Center
Schedule of Functional Expenses
Supplemental Information
For the Year Ended June 30, 2013

	<u>Program Expenses</u>	<u>Management and General Expenses</u>	<u>Total</u>
Personnel Services			
Salaries	\$ 7,864,494	\$ 1,280,266	\$ 9,144,760
Payroll Taxes and Benefits	1,588,860	258,651	1,847,511
Total Personnel Services	<u>9,453,354</u>	<u>1,538,917</u>	<u>10,992,271</u>
Operating Expenses			
Software Licensing Fees	15,587,876	-	15,587,876
Advertising	-	2,013,967	2,013,967
Professional Fees	268,761	348,260	617,021
Supplies	616,099	81,007	697,106
Telephone	116,489	18,963	135,452
Occupancy	164,503	26,779	191,282
Depreciation	315,966	51,436	367,402
Travel	191,851	17,021	208,872
Insurance	-	60,934	60,934
Other Expenses	-	375,739	375,739
Total Operating Expenses	<u>17,261,545</u>	<u>2,994,106</u>	<u>20,255,651</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 26,714,899</u>	<u>\$ 4,533,023</u>	<u>\$ 31,247,922</u>

See Auditor's Report

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

To the Board of Directors
Primavera Technical Learning Center

We have audited, in accordance with the 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, the financial statements of Primavera Technical Learning Center (an Arizona nonprofit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Primavera Technical Learning Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Primavera Technical Learning Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

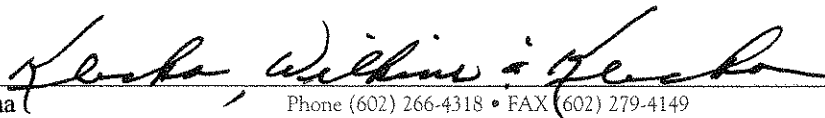
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Primavera Technical Learning Center's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Phoenix, Arizona
November 13, 2013

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors
Primavera Technical Learning Center

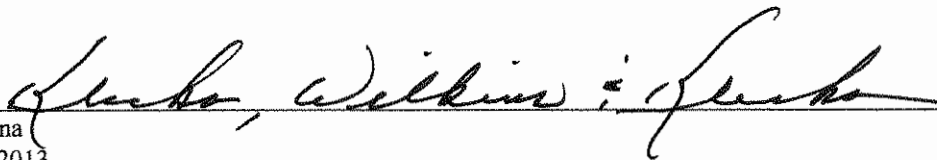
We have performed the procedures included in the Legal Compliance Questionnaire of the Arizona State Board for Charter Schools and enumerated below, which were agreed to by Primavera Technical Learning Center and the Arizona State Board for Charter Schools (ASBCS), solely to assist you and the ASBCS in evaluating management's assertion about Primavera Technical Learning Center's compliance with the requirements of applicable state law, regulations of the ASBCS, and provisions of your charter contract as of and for the year ended June 30, 2013 and for testing dates specified by us. Primavera Technical Learning Center's management is responsible for compliance with all laws, regulations issued by ASBCS, and provisions of its charter contract. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We obtained sufficient evidence necessary to complete the Legal Compliance Questionnaire as required by the ASBCS.
2. We completed the Legal Compliance Questionnaire as required by the ASBCS by marking either "Yes" or "No" or "N/A" for each question.
3. For all noncompliance, material or otherwise, requiring a "No" answer to a question in the questionnaire, we included an explanatory note in the questionnaire.

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

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

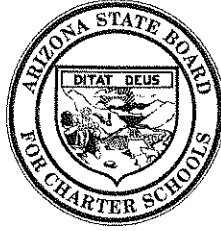


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November 13, 2013

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Arizona State Board for Charter Schools
Legal Compliance Questionnaire
Primavera Technical Learning Center
Fiscal Year Ended June 30, 2013

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INSTRUCTIONS

NOTE: This questionnaire should only be used for charters that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (charters that HAVE an exception). If a charter 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 dated May 13, 2013) which is available on the Arizona State Board for Charter Schools' website <http://asbcs.az.gov>.

In order to determine whether a charter 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 in accordance with both the agreed upon procedures (instructions contained herein) and the attestation standards established by the American Institute of Certified Public Accountants. (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 agreed upon procedures, as well as those identified throughout the questionnaire, must be used for completing the Legal Compliance Questionnaire in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The State Board for Charter Schools may reject questionnaires not meeting these standards.

- ◆ Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the charter complies with the legal requirements, and the evidence must be included in the 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 charter 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 charter complies with the legal requirements of the question and a “No” answer indicates the charter 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, resulting documentation, and any other sources.

The resulting 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 documentation a copy of the questionnaire containing references to procedures performed for each question.

Legal Compliance Questionnaire¹

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?	N/A	All required personnel had FCCs.
b. Did DPS receive the application prior to the hire date?	N/A	All required personnel had FCCs.
c. Prior to placement, did the school do all of the following?		
i) Document the necessity for hiring/placing the individual prior to receiving a FCC?	N/A	All required personnel had FCCs.
ii) Obtain statewide criminal history information on the individual?	N/A	All required personnel had FCCs.
iii) Obtain references from the applicant's current and previous employers?	N/A	All required personnel had FCCs.
3. Did the charter school maintain up-to-date fingerprints of all Governing Body members as of the testing date? Charter Contract²	Yes	

¹ For the purposes of this questionnaire, please note that "Governing Body" means the group of persons required by A.R.S. §15-183(E)(8) that is responsible for policy decisions of the charter school. The term "Governing Board" means the group of persons that the charter holder has assigned the responsibility addressed by the question. The applicable group of persons may be the Governing Body or the officers, directors, members or partners of the charter holder. The applicable group of persons may vary depending on the issue addressed by the question.

² Specific contract cites could not be provided as term references vary per contract year.

4. Were all other personnel fingerprint checked as of the testing date? A.R.S. §15-183 (C)(5) and A.R.S. §15-512	Yes	
5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of resume information for all employees who provide instruction to pupils? A.R.S. §15-183 (F)	Yes	
	Yes/No	Comments
Required Filings		
1. Is the school in good standing with the following regulatory bodies:		
a. Internal Revenue Service U.S.C. Title 26		
i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year?	Yes	
ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30 th) is a true statement.	Yes	
iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service?	N/A	1.a.i and 1.a.ii are Yes.
iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 th)?	N/A	1.a.iii is not Yes.
b. Arizona Department of Revenue A.R.S. §43-401 and §43-1111		
i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year?	Yes	
ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30 th) is a true statement.	Yes	
iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue?	N/A	1.b.i and 1.b.ii are Yes.
iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 th)?	N/A	1.b.iii is not Yes.
c. Arizona Department of Economic Security A.R.S. § 23-721 et seq.		
i. State unemployment contributions requirements for the audited fiscal year?	Yes	
ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30 th) is a true statement.	Yes	

iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security?	N/A	1.c.i and 1.c.ii are Yes.
iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 th)?	N/A	1.c.iii is not Yes.
d. Corporation Commission (e.g., annual report)? Charter Contract	Yes	
2. Was a copy of the adopted budget submitted electronically to the Superintendent of Public Instruction no later than July 18 th ? A.R.S. §15-905 (E) and §15-183 (E)(6)	Yes	
3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15 th ? A.R.S. §15-183 (E) (6) and 15-904 (A)	Yes	
Special Education		
1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education?	Yes	
2. Does the school conduct 45 day screenings on all new students? AAC R7-2-401	Yes	
3. Are evaluations and IEPs on file for special education students? 34 CFR 300.341-350 and 300.531-536	Yes	
Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum No. 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 Fund monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance on the Classroom Site Fund.)	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, and what was the Classroom Site Fund <u>cash</u> carryover balance at year-end?	Yes	Balance: \$1,193,476.

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 next to each applicable question.

	Yes/No	Comments
1. Was school in session for at least 180 days 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? A.R.S. § 15-341.01	Yes	
2. Did the school ensure that [A.R.S. §§15-808(I)(1) and 15-901(A)(1)]: (Note: Instructional 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. <i>ADE’s School Finance Procedures Manual</i>)		
a. Kindergarten was in session for at least 356 hours or 346 hours for Arizona Online Instruction (AOI) Programs?	N/A	No grades below 6th offered.
b. Grades 1 through 3 were in session for at least 712 hours?	N/A	No grades below 6th offered.
c. Grades 4 through 6 were in session for at least 890 hours?	Yes	
d. Grades 7 and 8 were in session for at least 1,000 hours or 1,068 hours for AOI Programs?	Yes	
e. Grades 9 through 12, other than AOI Programs, were in session at least 720 hours?	N/A	All programs are AOI.
f. Grades 9 through 12, other than AOI Programs, include 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?	N/A	All programs are AOI.
g. Grades 9 through 12 of AOI Programs include at least four courses throughout the year that meet at least 900 hours during the school year?	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. These samples 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 questions 3-15 and 18 should be selected from the 100th day reporting period.

In the parentheses provided in questions 3-15, write the actual number of transactions tested. If all transactions were tested, indicate such in the “Comments” column.

<p>For questions 3-5 select at least 3 student attendance records.</p> <p>3. If the school had an early (pre-)kindergarten program, based upon review of (0) early (pre-) kindergarten students' attendance records, did the school only calculate and submit membership/absence information 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)(1)(a)(i) and USFRCS Memorandum No. 33</p>	N/A	No grades below 6th offered.								
<p>4. Based upon review of (0) students' attendance records in kindergarten programs, if the instructional time for the year was between 356 and 692 hours, were students not in attendance for at least three-quarters of the day counted as being absent or, 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)(1)(a)(i) and 15-901(A)(5)(a)(i)</p>	N/A	No grades below 6th offered.								
<p>5. If the school had an early first grade program, based upon review of (0) early first grade students' attendance records, did the school calculate and submit membership/absence information for this program as it would for kindergarten in accordance with ADE's <i>School Finance Procedures Manual</i>? A.R.S. §§15-901(A)(1)(b)(i) and 15-901(A)(5)(a)(i), and USFRCS Memorandum No. 33</p>	N/A	No grades below 6th offered.								
<p>For questions 6 and 7, use the following sample sizes:</p>										
<table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>SCHOOLWIDE ADM</u></th> <th style="text-align: center;"><u>Student Attendance Records</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"><1,000</td> <td style="text-align: center;">5</td> </tr> <tr> <td style="text-align: center;">1,000-5,000</td> <td style="text-align: center;">10</td> </tr> <tr> <td style="text-align: center;">>5,000</td> <td style="text-align: center;">15</td> </tr> </tbody> </table> <p>6. Based on review of (0) students' attendance records at elementary and junior high schools in which attendance was based on half days, were students in attendance for less than one-half the day counted as being absent for one full day; were students in attendance for at least one-half day, but less than three-quarters of a day, counted as being absent for one-half day; and were students in attendance for at least three-quarters of a day counted in attendance for a day? A.R.S. §15-901(A)(5)(b)(ii)</p>	<u>SCHOOLWIDE ADM</u>	<u>Student Attendance Records</u>	<1,000	5	1,000-5,000	10	>5,000	15	N/A	All attendance is based on minutes.
<u>SCHOOLWIDE ADM</u>	<u>Student Attendance Records</u>									
<1,000	5									
1,000-5,000	10									
>5,000	15									

<p>7. Based upon review of (0) students' attendance records at elementary and junior high schools where attendance was based on quarter days, were students in attendance for more than three-quarters of the day counted in attendance for a day and 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)(5)(b)(i)</p>	<p>N/A</p>	<p>All attendance is based on minutes.</p>								
<p>For questions 8 through 12, use the following sample sizes:</p>										
<table border="0" style="width: 100%; text-align: center;"> <thead> <tr> <th style="text-decoration: underline;">SCHOOLWIDE ADM</th> <th style="text-decoration: underline;">Student Attendance Records</th> </tr> </thead> <tbody> <tr> <td><1,000</td> <td>3</td> </tr> <tr> <td>1,000-5,000</td> <td>5</td> </tr> <tr> <td>>5,000</td> <td>7</td> </tr> </tbody> </table> <p>8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for (7) 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 <u>School Finance Procedures Manual</u>?</p>	SCHOOLWIDE ADM	Student Attendance Records	<1,000	3	1,000-5,000	5	>5,000	7	<p>Yes</p>	
SCHOOLWIDE ADM	Student Attendance Records									
<1,000	3									
1,000-5,000	5									
>5,000	7									
<p>9. Based upon review of (0) high school students' attendance records, whose attendance was reported in terms of absences, for all absence days reported in a 1 month period, did the school report absences in accordance with the method(s) provided in ADE's <u>School Finance Procedures Manual</u>?</p>	<p>N/A</p>	<p>All attendance is based on minutes.</p>								
<p>10. Based upon review of (7) high school students' attendance records, did the school prorate the membership of the students enrolled in less than four subjects as provided in ADE's <u>School Finance Procedures Manual</u>?</p>	<p>Yes</p>									
<p>11. For schools offering an AOI Program, based upon a review of (7) AOI students' attendance records for 4 weeks:</p> <p>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)</p>	<p>Yes</p>									

b. Did the hours reported to ADE agree to the guardian-approved or school computer-generated daily log?	Yes									
c. Were all students who participated in an AOI Program, residents of this state? A.R.S. §15-808	Yes									
12. Based upon review of (0) students' attendance records (all grades) for students withdrawn for having ten consecutive unexcused absences, was the student only counted in membership through the last day of actual attendance or excused absence? A.R.S. §15-901(A)(1)	N/A	No attendance based on absences.								
For questions 13 and 14, use the following sample sizes:										
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;">SCHOOLWIDE ADM</th> <th style="text-align: center; border-bottom: 1px solid black;">Entries/Withdrawals</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"><1,000</td> <td style="text-align: center;">5</td> </tr> <tr> <td style="text-align: center;">1,000-5,000</td> <td style="text-align: center;">10</td> </tr> <tr> <td style="text-align: center;">>5,000</td> <td style="text-align: center;">15</td> </tr> </tbody> </table>	SCHOOLWIDE ADM	Entries/Withdrawals	<1,000	5	1,000-5,000	10	>5,000	15		
SCHOOLWIDE ADM	Entries/Withdrawals									
<1,000	5									
1,000-5,000	10									
>5,000	15									
13. Based upon review of (15) 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 begin on the first day of actual attendance or, for continuing/pre-enrolled students, the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of school? <i>ADE's School Finance Procedures Manual</i>	Yes									
e. Did the school obtain and maintain verifiable documentation of Arizona residency upon enrollment? A.R.S. §15-802(B)(1)	Yes									

f. If a student was not an Arizona resident, was the student excluded from the school's student count and state aid calculations? A.R.S. §15-823(J)	N/A	No students were found to be non-Arizona residents.										
14. Based upon review of (15) withdrawals:												
a. Were the withdrawal dates entered into the school's computerized attendance system within 5 working days after the actual day of withdrawal and was documentation maintained to support the date of data entry? (Note: "Day of withdrawal" for determining timely data entry 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 10 th day of unexcused absence 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 day following the withdrawal date for a student to be counted in membership through the last day of actual attendance or excused absence, 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 agree to 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											
<p>For question 15, use the following sample sizes:</p> <table border="1" data-bbox="175 1444 995 1665"> <thead> <tr> <th data-bbox="233 1444 464 1478">SCHOOLWIDE</th> <th data-bbox="740 1482 813 1516">Days</th> </tr> <tr> <th data-bbox="310 1482 388 1516">ADM</th> <th></th> </tr> </thead> <tbody> <tr> <td data-bbox="302 1535 396 1568"><1,000</td> <td data-bbox="764 1535 789 1568">3</td> </tr> <tr> <td data-bbox="269 1581 428 1614">1,000-5,000</td> <td data-bbox="764 1581 789 1614">5</td> </tr> <tr> <td data-bbox="302 1627 396 1661">>5,000</td> <td data-bbox="764 1627 789 1661">7</td> </tr> </tbody> </table>			SCHOOLWIDE	Days	ADM		<1,000	3	1,000-5,000	5	>5,000	7
SCHOOLWIDE	Days											
ADM												
<1,000	3											
1,000-5,000	5											
>5,000	7											
15. Based upon review of (7) 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 for membership and 60 days for absence information through the last day of instruction (with the first 20 and 60 day periods beginning on the first day of school or the opening of SAIS for current fiscal year data submission, whichever is later)? A.R.S. §§15-901(A)(1) and 15-1042(H)	Yes	
18. Based upon review of the school's 40 th and 100 th day information uploaded to ADE (ADMS 75-1), did the membership and absences agree to the school's computerized attendance system records? (Note: For an AOI program, review year-end attendance information.)	Yes	
	Yes/No	Comments
Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)		
1. 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?	Yes	
2. Did the school post all public meeting notices on its website?	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)		
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]?	Yes	
Records Management		
1. Did the school retain records in accordance with the <u>General Retention Schedule for School Districts and Charter Schools</u> 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 standards as set forth in the instructions on pages 2 and 3.

Klecka, Wilkins & Klecka

November 13, 2013

Audit Firm

Date



Partner

Preparer's Signature (Audit Firm Representative)

Title