East Valley High School

Academics · Arts · Leadership

February 20, 2015

Arizona State Board for Charter Schools
1616 West Adams Street, Suite 170
Phoenix, Arizona 85007

TO THE ESTEEMED MEMBERS OF THE BOARD:

In response to the December 8, 2014 letter from the Arizona State Board for Charter Schools requesting a Demonstration of Significant Progress regarding the financial performance of Legacy Education Group/East Valley High School (EVHS) during the fiscal year ended June 30, 2014 Management provides the following responses:

UNRESTRICTED DAYS LIQUIDITY

The email stated EVHS did not meet the Board's sustainability indicators for Unrestricted Days Liquidity, reported at 6.07.

Financial Performance Response:

Enrollment was lower in fiscal year 2013-14 (138.124) than in current fiscal year 2014-15 (140.613). Equalization Assistance has increased from $899,415.90 to $1,053,865.85 an increase of **$154,449.95**, which will significantly increases liquidity.

EVHS also searched for a new Worker's Compensation policy provider and negotiated a lower cost contract on January 10, 2015, which will save the school $5-6,000 in the current fiscal year.

NET INCOME

The email stated EVHS did not meet the Board's sustainability indicators for Net Income, posting negative net income of $553,033.

Financial Performance Response:

In Fiscal Year 2014-15, student counts have increased to 140.613 and the school expects to receive $154,449.95 in State Equalization funds; an increase of $154,449.95 from the prior fiscal year.

Additionally, the school expects to receive Classroom Site Fund payments totaling $63,955.12; an increase of $2,721.37 from the prior fiscal year. **The total expected increase in revenue is $157,171.32.**

Efforts to Attain Positive Net Income

As suggested by the school's auditor, Management will bring to the EVHS Board a proposal to forgive debt owed to related party Legacy (elementary) Schools, up to the total amount that Legacy Schools owes EVHS. It is estimated that this will save EVHS over $30,000 in the current fiscal year.

FIXED CHARGE COVERAGE RATIO

The email stated EVHS did not meet the Board's sustainability indicators for Fixed Charge Coverage Ratio, reported at 0.33.

Financial Performance Response:

The combination of increased enrollment, increased revenue, expense reduction, and debt forgiveness is projected to increase EVHS' Fixed Charge Coverage Ration in fiscal year 2014-15.

GOING CONCERN

The email stated EVHS did not meet the Board's sustainability indicators under Going Concern.

Financial Performance Response:

Management at EVHS continues to work hard at improving its financial performance. The audit report for fiscal year ended June 30, 2014 shows a $40,890 increase in federal funding ($436,063 compared to $395,173 at June 30, 2013) and a decrease in total expenses of $13,715 ($1,949,428 compared to $1,963,143 at June 30, 2013). Most significantly, cash and cash equivalents at the beginning of the year increased from $14,056 at June 30, 2013 to $72,157 at June 30, 2014. The increase of $58,101 is an improvement of **over 400%** and increases EVHS' unrestricted days liquidity as well as its ability to meet financial obligations.

Additionally, Management implemented policies and processes in fiscal year ended June 30, 2014 which improved overall operations, internal controls, and financial performance. In the audit for the prior fiscal year (ended June 30, 2013) the following findings were reported:

- Significant deficiency – segregation of duties
- Material weakness – detail tie-in of accounts payable
- Significant deficiency – review of payroll journals
- Material weakness – review of bank activity
- Significant deficiency – record retention

Through diligent efforts by Management and staff, **none** of these findings were listed on the June 30, 2014 audit report.

It should also be noted that **no** significant deficiencies were reported on the June 30, 2014 audit report. Management is working with ADI Business Solutions (ADI) to resolve the findings that were reported:

- Material weakness – reconciliation of bank and loan accounts
    - ADI developed and is using a spreadsheet to track the reconciliation of bank accounts. Company policy requires that all bank accounts are reconciled prior to monthly financial statements being issued or by the 20th of each month, whichever is earlier.
- Material Weakness – accounts payable
    - Management met with ADI and reached an agreement that all bills will be forwarded to ADI for entry into the accounting system, in order to properly track the status of all accounts payable.
- Material weakness – cost allocation with partner school

- Management worked with ADI to develop a cost allocation plan. This plan will be forwarded to the auditor for review. The implementation of this plan will be reflected in the 2015 audit.

- Internal control over compliance – payroll taxes
  - Most important, Management and ADI reached an agreement that all payroll taxes will be paid as part of the standard payroll process and all taxes have been paid to date.

Over the course of just one fiscal year, Management has made significant improvements in the operations and stability of East Valley High School. Management remains dedicated to bringing into compliance all financial performance measures and continues to strive for an unqualified audit opinion for fiscal year ending June 30, 2015

Sincerely,

Kathryn Tolman

Kathy Tolman,
Charter Representative
Legacy Education Group
CTDS # 07-85-07-000

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SAIS CHAR64-1

07-85-07 Legacy Education Group

Arizona Department Of Education
Equalization Assistance Payment Schedule Detail
FY 2014-2015

Apportionment Date: 2/2/2015

Run Date: 1/13/2015

Equalization Assistance

2014-15 Calculated Equalization Assistance	**$1,069,171.21**
Equalization AdjustmentsEqualization Adjustment (detail on last page)	**($15,305.36)**
Current Adjusted Equalization Assistance Base	**$1,053,865.85**

Equalization Assistance Payment Detail

Ln #	Month	Equalization Assistance Base	YTD Payment %	Equalization Assistance To Be Paid YTD	Calculated Current Month Payment	Adjustment To Payment	Current Month Payment	Actual Equalization Assistance Paid YTD
1	AUG	$1,097,954.45	8.33	$91,459.61	$91,459.61		$91,459.61	$91,459.61
2	SEP	$1,182,943.77	16.67	$197,196.73	$105,737.12		$105,737.12	$197,196.73
3	OCT	$1,169,137.14	25.00	$292,284.28	$95,087.55	$6,646.84	$101,734.39	$298,931.12
4	NOV	$1,169,137.14	33.33	$389,673.41	$97,389.13		$97,389.13	$396,320.25
5	DEC	$1,052,170.37	41.67	$438,439.39	$48,765.98		$48,765.98	$445,086.23
6	JAN	$1,053,687.91	50.00	$526,843.96	$88,404.56		$88,404.56	$533,490.79
7	FEB	$1,053,865.85	58.33	$614,719.95	$87,876.00		$87,876.00	$621,366.79

3 FY14 Statewide Recalculation Adjustment

FY14 Statewide Recalculation Adjustment

CSF-RPT02

ARIZONA DEPARTMENT OF EDUCATION
CLASSROOM SITE FUND PAYMENT DETAIL REPORT
FY 2015 JANUARY

Report Date: 1/23/2015

Print Date: 1/23/2015

078507000 Legacy Education Group

	PSD Count	PSD Weight	PSD Weighted	K-8 Count	K-8 Weight	K-8 Weighted	9-12 Count	9-12 Weight	9-12 Weighted	Total Weighted
Charter School	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	140.6129	1.5418	216.7970	216.7970
Total	**0.0000**		**0.0000**	**0.0000**		**0.0000**	**140.6129**		**216.7970**	**216.7970**
									x Per Pupil Amount	**$295.00**
										$63,955.12

Total Statewide Weighted Student Count: 1,312,692.17

District/Charter Weighted Attending Student Count: 216.80

YTD CSF Revenues Available for Distribution: $248,140,000.00

District/Charter Percentage of Statewide Count: 0.017%

Current Month Transactions	Amount
Starting Balance	$0.00
Monthly Payment	$5,329.59
Adjustment Due To Average Daily Membership Changes	$4.75
Withholdings	$0.00
Payment Due	$5,334.34
Adjustment Due To Revenue Shortfall*	$0.00
Payment Amount	**$5,334.34**

* Each school district and charter school will have received 6/12ths of its FY2015 annual CSF, which is based on $295 per weighted student count.

Arizona Department Of Education
Basic Calculations For Equalization Assistance For Charter Schools
FY 2014-15

Apportionment Date: 02/02/2015
Run Date: 01/13/2015

07-85-07 Legacy Education Group

Non-AOI Student Counts	K-8	9-12	Total
FY 2013-14 Average Daily Membership (100th Day)	0.000	128.686	128.686
FY 2014-15 Estimated Student Count	0.000	158.000	158.000
* 40th Day Actual	0.000	140.613	140.613
100th Day Actual	0.000	0.000	0.000
Enrollment Cap			250

*** Student count used to calculate equalization assistance***

Weighted Student Counts	Student Count		Support Level Weight		Weighted Student Count
K-8	0.000	X	0.000	=	0.000
9-12	140.613	X	1.542	=	216.825
SubTotal	140.613				216.825

Add-Ons	Estimated 40th Day FY 2014-15 ADM	* 40th Day FY 2014-15 ADM	*100th Day FY 2014-15 ADM		Support Level Weight		Estimated Student Count	40th Day Student Count	100th Day Student Count		Total Student Count Add-On
K-3 Reading	0.000	0.000	0.000	X	0.040	=	0.000	0.000	0.000	=	0.000
K-3	0.000 *	0.000	0.000	X	0.060	=	0.000	0.000	0.000	=	0.000
ELL	0.000	0.000 *	0.000	X	0.115	=	0.000	0.000	0.000	=	0.000
HI	0.000	0.000	0.000	X	4.771	=	0.000	0.000	0.000	=	0.000
MD-R,A-R,SID-R	2.000	2.000	0.000	X	6.024	=	12.048	12.048	0.000	=	12.048
MD-SC,A-SC,SID-SC	0.000	0.000	0.000	X	5.833	=	0.000	0.000	0.000	=	0.000
MDSSI	0.000	0.000	0.000	X	7.947	=	0.000	0.000	0.000	=	0.000
OI R	0.000	0.000	0.000	X	3.158	=	0.000	0.000	0.000	=	0.000
OI SC	0.000	0.000	0.000	X	6.773	=	0.000	0.000	0.000	=	0.000
DD,ED,MIID,SLD,SLI,OHI	24.000	20.280	0.000	X	0.003	=	0.072	0.061	0.000	=	0.061
EDP	0.000	0.000	0.000	X	4.822	=	0.000	0.000	0.000	=	0.000
MOID	0.000	0.000	0.000	X	4.421	=	0.000	0.000	0.000	=	0.000
VI	0.000	0.375	0.000	X	4.806	=	0.000	1.802	0.000	=	1.802
Total Weighted Add-On Count											13.911

East Valley HS and Legacy Schools Policy for Determination of Shared Costs

Determining amounts of shared costs between Legacy School and East Valley HS

Depending on what the cost is that will be shared, it will be done in various ways. It should first be noted that as contracts have been renewed, quotes, are requested on each school separately.

Per employee basis

For items that can be determined based on a per employee basis, costs are divided in that manner. This will be used for health/dental insurance, retirement account, HSA and AFLAC for example.

Per student basis

For items that can be determined based on a per student basis, the total costs will be divided based on the student number for each school. Student accident insurance is determined per student, per school. Costs for busing will be totaled for the school year and each school's cost will be allocated based on the number of students using the bus service.

Shared equally between both schools

For items that are shared equally between both schools, costs are divided equally. The copier lease is an example of this.

Administrative costs

Administrative costs are determined in several ways. The salaries for the two administrators that oversee both schools is divided equally for each school. The costs for administrative offices, storage, etc. is determined based on a per square foot cost.