Financial Performance Response Evaluation Instrument

Charter Holder Name: Legacy Education Group
Charter Holder Entity ID: 87349

Required for: Interval Review
Audit Year: 2014

Arizona State Board for Charter Schools (Board) staff completed the Financial Performance Response Evaluation Instrument for the Board in its consideration of applicable requests made by the charter holder. "Not Acceptable" answers may adversely affect the Board's decision regarding a charter holder's request.

Measure	Reason(s) for "Not Acceptable" Rating
1a. Going Concern Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder states, "Management implemented policies and processes in the fiscal year ended June 30, 2014 which improved overall operations, internal controls, and financial performance." The audit does not support that the charter holder's financial performance improved in 2014. The audit shows a larger net loss ($553,033) and an increase in the charter holder's net asset deficit ($1,500,633) in the audited fiscal year as compared to 2013, which is consistent with the basis for the going concern disclosure. Additionally, while the response addresses various significant deficiencies and material weaknesses identified in the 2013 and 2014 audits and improvements that have been made or are in process, the charter holder does not explain how these internal control weaknesses affected its financial performance. Had the charter holder explained and supported the reasons for its recurring net losses and its net asset deficit and its efforts to improve in each of these two areas, this information would have been considered in Board staff's evaluation. The charter holder states that "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." The beginning year cash balances are a point of reference on the cash flow statement and do not, by themselves, determine an entity's ability to meet financial obligations in the audited fiscal year. The $14,056 represents cash at the end of fiscal year 2012 used to combine with the amount of cash generated from operations in 2013 ($58,101) to arrive at the end of year 2013 cash balance ($72,157). The charter holder's reference to 400% improvement represents the improvement in cash balances in 2013 which factors into the 2013 cash flow and unrestricted days liquidity calculations, but does not directly impact the going concern measure in the audited fiscal year.
1b. Unrestricted Days Liquidity Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder does not explain the reason it did not meet the Board's target on this measure in the audited fiscal year. The charter holder states "EVHS searched for a new Worker's Compensation Policy and negotiated a lower cost contract on January 10, 2015, which will save the school $5-6,000 in the current fiscal year." The charter holder does not support the lower cost contract or how this, along with the increased revenues referenced in the response, will improve the charter holder's performance on this measure. Had the charter holder provided internal management reports or interim financial statements, these would have been considered in Board staff's evaluation.

Measure	Reason(s) for "Not Acceptable" Rating
1c. Default Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
2a. Net Income Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder does not explain the reason it did not meet the Board's target on this measure in the audited fiscal year. The charter holder asserts that "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." The charter holder does not support that the $30,000 debt forgiveness will significantly improve the trend of net losses of about $500,000 each year since 2012. Had the charter holder provided internal management reports or interim financial statements, these would have been considered in Board staff's evaluation.
2b. Cash Flow Acceptable ☐ Not Acceptable ☐ Not Applicable ☒	
2c. Fixed Charge Coverage Ratio Acceptable ☐ Not Acceptable ☒ Not Applicable ☐	The charter holder does not explain the reason it did not meet the Board's target on this measure in the audited fiscal year. The charter holder asserts, but does not support, "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." Had the charter holder provided internal management reports or interim financial statements, these would have been considered in Board staff's evaluation.