Legacy Schools - Entity ID 79660
School: Encore Arts Academy

Renewal Executive Summary

I. Performance Summary

Area	Acceptable	Not Acceptable
Academic Framework	☐	☒
Financial Framework	☐	☒
Operational Framework	Not Yet Rated See Section VII	Not Yet Rated See Section VII

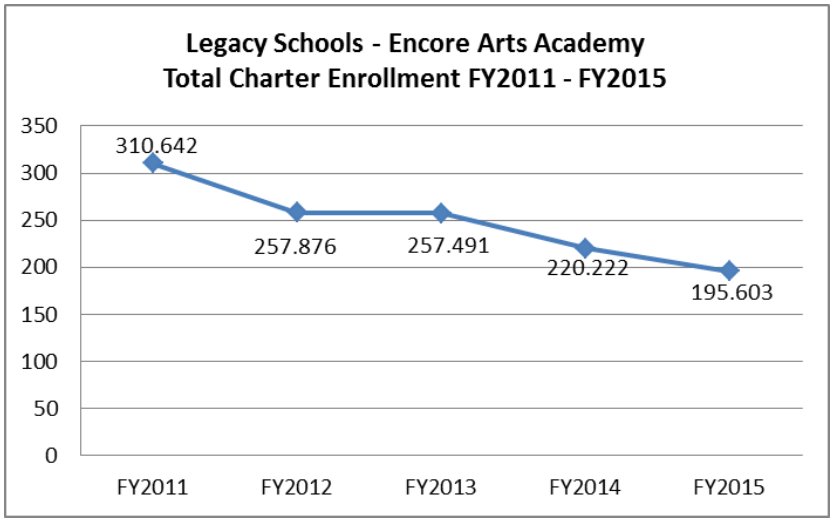
In the fall of 2009, the school operated by Legacy Schools was designated as an underperforming school for a third consecutive year and was subsequently classified as failing to meet academic standards. A Consent Agreement for Restoration of the Charter was approved by the Board at its May 10, 2010 meeting. The Consent Agreement included the submission of a Performance Management Plan. During the five-year interval review of the charter, Legacy Schools was required to submit a Performance Management Plan as an intervention because the school operated by the Charter Holder, did not meet the academic expectations set forth by the Board. At the time Legacy Schools became eligible to apply for renewal, the Charter Holder did not meet the Academic Performance Expectations of the Board as set forth in the Performance Framework and was required to submit a Demonstration of Sufficient Progress as part of the renewal application package. The Charter Holder was unable to demonstrate the school is making sufficient progress toward the Board's expectations through the submission of the required information or evidence reviewed during an on-site visit. In the most recent fiscal year for which there is State assessment data available, Encore Arts Academy received an overall rating of "Does Not Meet" the Board's academic standards.

The Charter Holder did not meet the Financial Performance Expectations of the Board as set forth in the Performance Framework and was required to submit a Financial Performance Response.

The Charter Holder does have compliance matters, which are described in the "Adherence to the Terms of the Charter" section of this report.

II. Profile

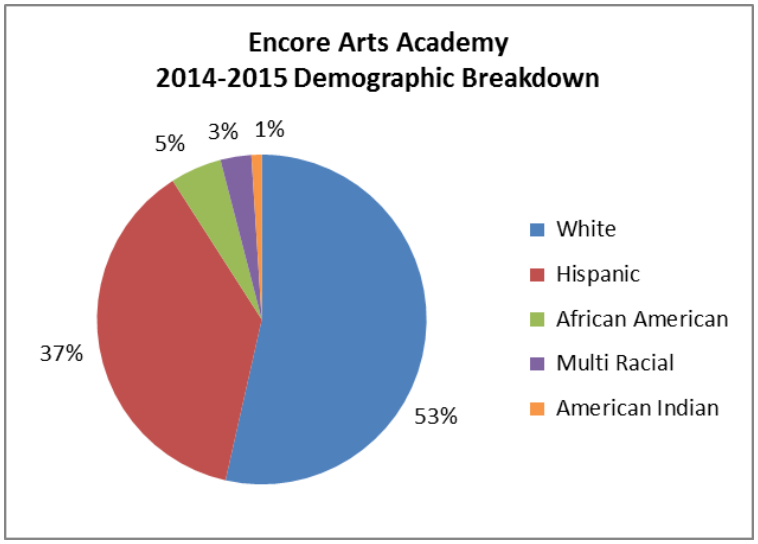
Legacy Schools operates one school, Encore Arts Academy, serving grades K-8 in Mesa. The graph below shows the Charter Holder's actual 100th day average daily membership (ADM) for fiscal years 2011-2015.



The academic performance of Encore Arts Academy is represented in the table below. The Academic Dashboard for the school can be seen in the portfolio: c. Academic Dashboard.

School Name	Opened	Current Grades Served	2012 Overall Rating	2013 Overall Rating	2014 Overall Rating
Encore Arts Academy	08/18/2003	K – 8	69.38 / B	50.62 / C	56.25 / C

The demographic data for Encore Arts Academy from the 2014-2015 school year is represented in the chart below.[1]



The percentage of students who were eligible for Free and Reduced Lunch, classified as English Language Learners, and classified as students with disabilities in the 2013-2014 school year is represented in the table below.[2]

[1] Information provided by the Research and Evaluation Division of the ADE.

Category	Encore Arts Academy
Free and Reduced Lunch (FRL)	81%
English Language Learners (ELLs)	4%
Special Education	14%

The Charter Holder was last before the Board on August 11, 2014 for compliance matters regarding the Charter Holder's failure to comply with federal payroll tax requirements and state financial record retention requirements. The Board has entered into a Consent Agreement with Legacy Schools which outlines the terms the Charter Holder must meet for fiscal year 2015 through fiscal year 2019.

III. Additional School Choices

Encore Arts Academy is located in Mesa near East University Drive and North Sossaman Road. The following information identifies additional schools within a five mile radius of the school and the academic performance of those schools.

There are 42 schools serving grades K-8 within a five mile radius of Encore Arts Academy. The table below provides a breakdown of those schools. Schools are grouped by the A - F letter grade assigned by the ADE. For each letter grade, the table identifies the number of schools assigned that letter grade, the number of those schools that are charter schools, the number of the charter schools that are meeting the Board's academic performance standard for FY14, and the number of schools serving a comparable percentage of students (± 5%) in the identified subgroups.[3]

Encore Arts Academy				81%	4%	14%
Letter Grade	Within 5 miles	Charter Schools	Meets Board's Standard	Comparable FRL (± 5%)	Comparable ELL (± 5%)	Comparable SPED (± 5%)
A	22	4	4	0	16	11
B	16	4	2	0	10	11
C	4	2	0	2	2	4

IV. Success of the Academic Program

For the past two years Encore Arts Academy has not met the Board's academic performance standards. The Overall Rating points have decreased by 13.13 points from FY2012 to FY2014 and the school has been evaluated as "Does Not Meet" the Board's academic performance standards for FY2013 and FY2014. From FY2013 to FY2014 the school has shown improvement. The Overall Rating points for Encore Arts Academy increased by 5.63 points from FY2013 to FY2014. 1 of 10 measures that were evaluated as Does Not Meet for FY2013 improved to Meets in FY2014, however, one measure declined to Falls Far Below.

The following is a timeline of activities that have occurred related to the academic performance of Legacy Schools:

[2] Information provided by the Research and Evaluation Division of the ADE. If the percentage of students in a non-ethnicity-based demographic group is not reported to ADE, or is 0% or 100%, the percentage for that demographic group is redacted.

[3] Information provided by the Research and Evaluation Division of the ADE. If the percentage of students in a non-ethnicity-based demographic group is not reported to ADE, or is 0% or 100%, the percentage for that demographic group is redacted.

Fall, 2009: The school operated by Legacy Schools, Encore Arts Academy, was designated as an underperforming school for a third consecutive year and was classified as failing to meet academic standards. ADE and Board staff conducted a joint evaluation of the school.

April, 2010: The Board directed staff to work with Legacy Schools to create a Consent Agreement for the purpose of restoring the charter to acceptable performance that would minimally include a Performance Management Plan , evidence of Highly Qualified staff throughout the year, site leadership plan, budget that supports the PMP and all consent agreement terms, and quarterly progress reports.

May, 2010: The Board accepted the terms of the Consent Agreement for Legacy Schools.

February, 2012 Legacy Schools was notified that the Charter Holder was required to submit a Performance Management Plan for the five-year interval review because Encore Arts Academy, a school operated by the Charter Holder, did not meet the Academic Expectations set forth by the Board.

June, 2012: Legacy Schools submitted a Performance Management Plan (portfolio: g. Prior Academic Intervention Submissions and Evaluations – i. Performance Management Plan).

February, 2013: The Board released FY2012 Academic Dashboards; Legacy Elementary School received an overall rating of "Meets" the Board's academic standards. In accordance with the Board's academic framework intervention schedule at that time, the Charter Holder was waived from any specific monitoring requirements.

September, 2013: The Board released FY2013 Academic Dashboards; Encore Arts Academy received an overall rating of "Does Not Meet" the Board's academic standards. Therefore, Legacy Schools did not meet the Board's Academic Performance Expectations. The Charter Holder was assigned a DSP as part of an annual reporting requirement.

December, 2013: The Charter Holder did not timely submit a DSP. Board staff notified the Charter Representative that at the January 2014 meeting the Board would be addressing possible noncompliance of the Legacy Schools.

January, 2014: Legacy Schools submitted a DSP prior to the January 2014 meeting. Board staff evaluated the DSP and provided the Charter Holder with the DSP evaluation (portfolio: g. Prior Academic Intervention Submissions and Evaluations –: ii. FY2013 DSP Evaluation) and additional technical guidance (portfolio: g. Prior Academic Intervention Submissions and Evaluations –iii. FY2013 DSP Technical Guidance).

September, 2014: The Board released FY2014 Academic Dashboards; Encore Arts Academy received an overall rating of "Does Not Meet" the Board's academic standards. Therefore, Legacy Schools did not meet the Board's Academic Performance Expectations. The Charter Holder was not assigned a DSP as part of an annual reporting requirement because the Charter Holder would become eligible for renewal within the fiscal year.

January, 2015: Board staff provided the Charter Holder, through its authorized representative, Kathy Tolman, with Renewal Notification Information, which included notification of the renewal process, the date on which the Charter Holder would become eligible to apply for renewal (January 11, 2015), the deadline date on which the renewal application package would be due to the Board (April 11, 2015), information on the availability of the Charter Holder's renewal application as well as instruction on how to access the renewal application, and notification of the requirement to submit a DSP as a component of its renewal application package because the Charter Holder did not meet the Academic Performance Expectations set forth by the Board.

V. Demonstration of Sufficient Progress

A renewal application package with a Renewal DSP for Encore Arts Academy (portfolio: f. Renewal DSP Submission) was timely submitted by the Charter Representative on April 8, 2015. The Charter Holder was provided a copy of the initial evaluation of the DSP Report prior to the site visit and informed that areas initially evaluated as not acceptable must be addressed with additional evidence and documentation at the time of the visit.

Following a preliminary evaluation of the DSP, staff conducted a site visit to meet with the school's leadership, as selected by the school, to confirm evidence of the processes described in the DSP and review additional evidence to be considered in the final evaluation of the Charter Holder's DSP submission. The following representatives of Legacy Schools were present at the site visit:

Name	Role
Kathy Tolman	Director/ Charter Representative
Sheri Skousen	RTI Department Head

At the site visit, Board staff completed a document inventory for all evidence presented by the Charter Holder (portfolio: e. Renewal DSP Site Visit Inventory Forms). The Charter Holder was provided a copy of the document inventory at the end of the site visit. Following the site visit, Board staff completed a final evaluation of the DSP (portfolio: d. Renewal DSP Final Evaluation). The following is a summary of the final DSP Evaluation:

Evaluation Summary			
Area	DSP Evaluation		
	Meets	Does Not Meet	Falls Far Below
Data	☐	☐	☒
Curriculum	☒	☐	☐
Assessment	☒	☐	☐
Monitoring Instruction	☒	☐	☐
Professional Development	☒	☐	☐

After considering information in the DSP Report and evidence provided at the time of the site visit, the Charter Holder did demonstrate evidence of a sustained improvement plan that includes implementation of a comprehensive curriculum system, a comprehensive assessment system, a comprehensive instructional monitoring system, and a comprehensive professional development system. However, the data provided by the Charter Holder failed to show improvement year-over-year for the two most recent school years, and demonstrated declines in academic performance, in 8 out of the 9 measures required by the Board.

Based on the findings summarized above and described below, staff determined that the Charter Holder did not demonstrate sufficient progress towards meeting the Board's Academic Performance Expectations.

Data

The area of Data is evaluated as Falls Far Below. As evidenced at the DSP site visit, the data provided by the Charter Holder failed to show improvement year-over-year for the two most recent school years, and demonstrated declines in academic performance, in 8 out of the 9 measures required by the Board.

For more detailed analysis see Data Inventory (portfolio: e. Renewal DSP Site Visit Inventory Forms, i. Site Visit Inventory – Data).

Question	Valid and Reliable Data	Comparative Data provided for Current Fiscal Year	Comparative Data Demonstrates Growth	Document Inventory Item
Student Median Growth Percentile (SGP) - Math	Yes	Yes	Yes	D1
Student Median Growth Percentile (SGP) - Reading	Yes	Yes	No	D2
Student Median Growth Percentile Bottom 25% - Math	Yes	No	No	D3
Student Median Growth Percentile Bottom 25% - Reading	Yes	No	No	D4
Percent Passing - Math	Yes	Yes	No	D5
Percent Passing - Reading		Yes	No	D6
Subgroup, ELL - Math	Yes	No	No	D7
Subgroup, FRL - Math	Yes	No	No	D9
Subgroup, FRL - Reading	Yes	No	No	D10

Curriculum

The area of Curriculum is evaluated as Meets. As demonstrated by the evidence provided at the DSP site visit, the Charter Holder has consistently implemented a comprehensive curriculum system that addresses each of the required elements. For more detailed analysis see Curriculum Inventory (portfolio: e. Renewal DSP Site Visit Inventory Forms, ii. Site Visit Inventory – Curriculum).

Question	Sufficient Evidence	Document Inventory Item
Evaluating Curriculum		
What is the Charter Holder's process for evaluating curriculum? How does the Charter Holder evaluate how effectively the curriculum enables students to meet the standards?	Yes	C1
How does the Charter Holder identify gaps in the curriculum?	Yes	C2
Adopting/Revising Curriculum		
What is the Charter Holder's process for adopting or revising curriculum based on its evaluation processes?	Yes	C3
Who is involved in the process for adopting or revising curriculum?	Yes	C4
When adopting curriculum, how does the Charter Holder evaluate curriculum options to determine which curriculum to adopt?	Yes	C5
Implementing Curriculum		
What is the Charter Holder's process for ensuring consistent implementation of the curriculum across the school(s) operated by the Charter Holder?	Yes	C6
What tools exist that identify what must be taught and when it must be delivered? How does the Charter Holder ensure that all grade-level standards are covered within the academic year?	Yes	C7
What is the expectation for consistent use of these tools? How are these expectations communicated?	Yes	C8
What evidence is there to demonstrate usage of these tools in the classroom and alignment with instruction?	Yes	C9
Alignment of Curriculum		
How does the Charter Holder know the curriculum is aligned to standards?	Yes	C10
Adapted to Meet the Needs of Subgroups		
How has the Charter Holder ensured that the curriculum addresses the needs of students with proficiency in the bottom 25%?	Yes	C11
How has the Charter Holder ensured that the curriculum addresses the needs of English Language Learners (ELLs)?	Yes	C12
How has the Charter Holder ensured that the curriculum addresses the needs of Free and Reduced Lunch (FRL) students?	N/A	C13
How has the Charter Holder ensured that the curriculum addresses the needs of students with disabilities?	N/A	C14

Assessment

The area of Assessment is evaluated as Meets. As demonstrated by the evidence provided at the DSP site visit, the Charter Holder has consistently implemented a comprehensive assessment system that addresses each of the required elements. For more detailed analysis see Assessment Inventory (portfolio: e. Renewal DSP Site Visit Inventory Forms, iii. Site Visit Inventory – Assessment).

Question	Sufficient Evidence	Document Inventory Item
Assessment System		
What types of assessments does the Charter Holder use?	Yes	A1
What was the process for designing or selecting the assessment system?	Yes	A2
How is the assessment system aligned to the curriculum and instructional methodology?	Yes	A3
What intervals are used to assess student progress? How does the assessment plan include data collection from multiple assessments, such as formative and summative assessments and common/benchmark assessments?	Yes	A4
Analyzing Assessment Data		
How does the assessment system provide for analysis of assessment data? What intervals are used to analyze assessment data?	Yes	A5
How is the analysis used to evaluate instructional and curricular effectiveness?	Yes	A6
How is the analysis used to adjust curriculum and instruction in a timely manner? What intervals are used to adjust curriculum and instruction?	Yes	A7
Adapted to Meet the Needs of Subgroups		
How is the assessment system adapted to meet the assessment needs of students with proficiency in the bottom 25%?	Yes	A8
How is the assessment system adapted to meet the assessment needs of English Language Learners (ELLs)?	Yes	A9
How is the assessment system adapted to meet the assessment needs of Free and Reduced Lunch (FRL) students?	N/A	A10
How is the assessment system adapted to meet the assessment needs of students with disabilities?	N/A	A11

Monitoring Instruction

The area of Monitoring Instruction is evaluated as Meets. As demonstrated by the evidence provided at the DSP site visit, the Charter Holder has consistently implemented a comprehensive instructional monitoring system that addresses each of the following required elements. For more detailed analysis see Monitoring Instruction Inventory (portfolio: e. Renewal DSP Site Visit Inventory Forms, iv. Site Visit Inventory – Monitoring Instruction).

Question	Sufficient Evidence	Document Inventory Item
Monitoring the Integration of Standards		
What is the Charter Holder's process for monitoring the integration of standards into classroom instruction? How does the Charter Holder monitor whether or not instructional staff implements an ACCRS-aligned curriculum with fidelity?	Yes	M1
How does the Charter Holder monitor the effectiveness of standards-based instruction throughout the year?	Yes	M2
Evaluating Instructional Practices		
What is the Charter Holder's process for evaluating the instructional practices? How does this process evaluate the quality of instruction?	Yes	M3
How does this process identify individual strengths, weaknesses, and needs?	Yes	M4
Providing Analysis and Feedback to Further Develop Instructional Quality		
How does the Charter Holder provide feedback on strengths, weaknesses, and learning needs based on the evaluation of instructional practices?	Yes	M5
How does this Charter Holder analyze this information? What does the data about quality of instruction tell the Charter Holder? What has the Charter Holder done in response?	Yes	M6
Adapted to Meet the Needs of Subgroups		
How does the Charter Holder monitor instruction to ensure it is meeting the needs of students with proficiency in the bottom 25%?	Yes	M7
How does the Charter Holder monitor instruction to ensure it is meeting the needs of English Language Learners (ELLs)?	Yes	M8
How does the Charter Holder monitor instruction to ensure it is meeting the needs of Free and Reduced Lunch (FRL) students?	N/A	M9
How does the Charter Holder monitor instruction to ensure it is meeting the needs of students with disabilities?	N/A	M10

Professional Development

The area of Professional Development is evaluated as Meets. As demonstrated by the evidence provided at the DSP site visit, the Charter Holder has consistently implemented a comprehensive professional development system that addresses each of the following required elements. For more detailed analysis see Professional Development Inventory (portfolio: e. Renewal DSP Site Visit Inventory Forms, v. Site Visit Inventory – Professional Development).

Question	Sufficient Evidence	Document Inventory Item
Professional Development System		
What is the Charter Holder's professional development plan?	Yes	P1
How was the professional development plan developed?	Yes	P2
How is the professional development plan aligned with instructional staff learning needs?	Yes	P3
How does this plan address areas of high importance?	Yes	P4
Supporting High Quality Implementation		
How does the Charter Holder support high quality implementation of the strategies learned in professional development sessions?	Yes	P5
How does the Charter Holder provide the resources that are necessary for high quality implementation?	Yes	P6
Monitoring Implementation		
How does the Charter Holder monitor the implementation of the strategies learned in professional development sessions?	Yes	P7
How does the Charter Holder monitor and follow-up with instructional staff to support and develop implementation of the strategies learned in professional development?	Yes	P8
Adapted to Meet the Needs of Subgroups		
How does the professional development plan ensure that instructional staff receives the type of development required to meet the needs of students with proficiency in the bottom 25%/non-proficient students?	Yes	P9
How does the professional development plan ensure that instructional staff receives the type of development required to meet the needs of English Language Learners (ELLs)?	Yes	P10
How does the professional development plan ensure that instructional staff receives the type of development required to meet the needs of Free and Reduced Lunch (FRL) students?	N/A	P11
How does the professional development plan ensure that instructional staff receives the type of development required to meet the needs of students with disabilities?	N/A	P12

VI. Viability of the Organization

The Charter Holder was required to submit a Financial Performance Response because it did not meet the Board's Financial Performance Expectations, as reflected in the tables below which include the Charter Holder's financial data and financial performance for the last three audited fiscal years. The fiscal years 2013 and 2014 audits included prior period adjustments. Table 1 presents the financial data and performance based on the audits as submitted for each fiscal year. Table 2 presents the financial data and performance as modified by subsequent audit submissions.

Table 1 - Financial Data				
Statement of Financial Position	**2014**	**2013**	**2012**	**2011**
Cash	$99,732	$108,526	$43,368	$35,326
Unrestricted Cash	$99,732	$108,526	$43,368	
Other Liquidity	-	-		
Total Assets	$672,698	$810,588	$702,784	
Total Liabilities	$1,035,796	$1,215,902	$646,386	
Current Portion of Long-Term Debt & Capital Leases	$182,681	$146,296	$84,578	
Net Assets	($363,098)	($405,314)	$56,398	
Statement of Activities	**2014**	**2013**	**2012**	
Revenue	$1,933,375	$2,210,787	$2,115,326	
Expenses	$2,056,303	$2,473,490	$2,265,093	
Net Income	($122,928)	($262,703)	($149,767)	
Change in Net Assets	($122,928)	($262,703)	($149,767)	
Financial Statements or Notes	**2014**	**2013**	**2012**	
Depreciation & Amortization Expense	$43,378	$51,015	$62,898	
Interest Expense	$26,370	$30,941	$10,977	
Lease Expense	$480,984	$431,200	$506,990	
Financial Performance				
	2014	**2013**	**2012**	**3-yr Cumulative**
Near-Term Indicators				
Going Concern	Yes	Yes	Yes	N/A
Unrestricted Days Liquidity*	17.70	16.01	6.99	N/A
Default	No	No	No	N/A
Sustainability Indicators				
Net Income	($122,928)	($262,703)	($149,767)	N/A
Cash Flow	($8,794)	$65,158	$8,042	$64,406
Fixed Charge Coverage Ratio	0.62	0.41	0.72	N/A

* For fiscal year 2012, the field reflects the charter holder's performance under the financial framework's previous "Unrestricted Days Cash" measure.

Table 2 - Financial Data				
Statement of Financial Position	**2014**	**2013**	**2012**	**2011**
Cash	$99,732	$108,526	$43,368	$35,326
Unrestricted Cash	$99,732	$108,526	$43,368	
Other Liquidity	-	-		
Total Assets	$672,698	$810,588	$549,238	
Total Liabilities	$1,035,796	$1,050,758	$691,849	
Current Portion of Long-Term Debt & Capital Leases	$182,681	146,296	97,764	
Net Assets	($363,098)	($240,170)	($142,611)	
Statement of Activities	**2014**	**2013**	**2012**	
Revenue	$1,933,375	$2,392,123	$2,115,326	
Expenses	$2,056,303	$2,462,050	$2,298,513	
Net Income	($122,928)	($69,927)	($183,187)	
Change in Net Assets	($122,928)	($69,927)	($183,187)	
Financial Statements or Notes	**2014**	**2013**	**2012**	
Depreciation & Amortization Expense	$43,378	$51,015	$50,855	
Interest Expense	$26,370	30,941	20,853	
Lease Expense	$480,984	$440,902	$506,990	
Financial Performance				
	2014	**2013**	**2012**	**3-yr Cumulative**
Near-Term Indicators				
Going Concern	Yes	Yes	Yes	N/A
Unrestricted Days Liquidity*	17.70	16.09	6.89	N/A
Default	No	No	No	N/A
Sustainability Indicators				
Net Income	($122,928)	($69,927)	($183,187)	N/A
Cash Flow	($8,794)	$65,158	$8,042	$64,406
Fixed Charge Coverage Ratio	0.62	0.73	0.63	N/A

* For fiscal year 2012, the field reflects the charter holder's performance under the financial framework's previous "Unrestricted Days Cash" measure.

The Charter Holder's Financial Performance Response has been provided in the meeting materials (portfolio: i. Supplemented Financial Response).[4] Staff's final evaluation of the Financial Performance Response resulted in two "Acceptable" and three "Not Acceptable" determinations (portfolio: h. Financial Response Evaluation). An analysis of the Charter Holder's financial performance, focusing on those measures where the Charter Holder failed to meet the Board's target and using information from the Charter Holder's Financial Performance Response and related documents, is provided below.

Going Concern

Based on the independent auditors' report, the Charter Holder received a "Falls Far Below" on this measure for 2014. According to the audit, the Charter Holder has suffered recurring losses from operations and has a net deficiency in net assets. The Charter Holder indicated that the 2014 reduction in expenses was not enough to offset the net loss in 2013 and decreased revenues in 2014.

[4] On May 5, 2015, Board staff emailed a copy of staff's initial evaluation and provided a deadline by which the Charter Holder could supplement its Financial Performance Response to address areas evaluated as "Not Acceptable". By the deadline, the Charter Holder submitted supplemental information.

Going forward, the Charter Holder stated it has a better understanding of how negative net income in prior years affects subsequent years. The Charter Holder also recognizes that increases in revenue, decreases in expenses, or both are necessary to address the going concern. It could not be determined by the response, however, if the Charter Holder will be able to generate enough net income to improve the Charter Holder's rating on this measure in 2015 or subsequent years.

Unrestricted Days Liquidity

The Charter Holder indicated that net losses in 2013 and 2014 "put the school at a significant disadvantage for obtaining the 30 Days Unrestricted Liquidity." The Charter Holder explained that it needed to reduce expenses or increase its cash balance in 2014 in order to meet the target for the unrestricted days liquidity measure in the audited fiscal year.

The Charter Holder indicated "While completing the analysis for this response, the school gained a better understanding of how to budget each fiscal year for not just positive Net Income, but also for a minimum of 30 Unrestricted Days Liquidity." Calculations made by staff using documents provided with the response indicate the Charter Holder's performance on this measure is likely to decline in 2015 by approximately 4 days, changing the rating from "Does Not Meet" to "Falls Far Below."

Net Income

The Charter Holder indicated that the same issues that impacted going concern also had an impact on this measure.

The Charter Holder indicated that the net loss reported in 2014 will not occur in future periods "because budgets will be created, monitored, and updated more thoroughly." Calculations made by staff using documents provided with the response indicate that the Charter Holder should meet the Board's net income target in 2015.

Fixed Charge Coverage Ratio (FCCR)

The Charter Holder explained that the net loss in 2014 contributed to its performance on the FCCR in the audited fiscal year, and further clarified, "The Charter Holder is committed to meeting the Financial Performance Standards and Measures and recognizes that significant expense reduction is required to meet those goals." Calculations made by staff using documents provided with the response indicate that the Charter Holder's performance on this measure is expected to improve in 2015, but will fall short of Board's FCCR target.

Cash Flow

The Charter Holder reduced expenses in 2014, but the reduction did not completely offset the decrease in revenue that year. This resulted in negative cash flow that impacted the Charter Holder's performance on this measure. The Charter Holder further explained "The school did not adequately budget for all expenses FY13-14. In order to obtain positive cash flow, the school needed to reduce expenses and increase revenue in FY13-14. The school now has a better understanding of how to budget for not just positive Net Income, but also for Positive Cash Flow in each fiscal year." Documents provided with the response indicate that the Charter Holder projects negative cash flow in 2015.

VII. Adherence to the Terms of the Charter

Does the delivery of the education program and operation reflect the essential terms of the educational program as described in the charter contract?

Yes. Based on the available information in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder's education program, in operation, reflects the essential terms as described in the charter contract.

Does the Charter Holder adhere with applicable education requirements defined in state and federal law?
Based on the available information in the current fiscal year, the Charter Holder adheres with applicable education requirements defined in state and federal law.

Based on the available information in fiscal years 2014, the Charter Holder adheres with applicable education requirements defined in state and federal law except that the Charter Holder failed to timely complete compliance activities for the 2013-2014 Elementary and Secondary Education Act of 1965 (ESEA) Cycle 2 Monitoring Instrument. Initial notification was sent on December 17, 2013. Reminder notices were issued January 24, 2014; February 5, 2015; May 12, 2014; May 28, 2014. On June 19, 2014 ADE notified the charter holder that Title I, Title II-A and Title II-D funds would be placed on programmatic hold within 15 days if compliance activities were not completed and submitted. On July 28, 2014 ADE notified the Charter Holder that it met compliance standards after follow-up procedures were completed that included a review of activities that were completed in response to items initially determined to be in noncompliance for the Cycle 2 Monitoring.

Based on the available information in fiscal years 2013, the Charter Holder adheres with applicable education requirements defined in state and federal law.

Do the Charter Holder's annual audit reporting packages reflect sound operations?
As reported in the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the fiscal year 2014 annual audit reporting package ("audit"), except that:

> The Charter Holder failed to timely submit the fiscal year 2014 audit.
>
> The audit included a qualified auditors' opinion on the financial statements for the second year in a row, resulting in a repeat medium impact finding. Specifically, the auditors' report stated the Charter Holder did not have adequate controls to allocate the costs that are shared between the Charter Holder and a related charter holder. In addition, the receivable balance recorded by the Charter Holder does not match the payable balance recorded by the related entity as of June 30, 2014. As part of a corrective action plan (CAP) submitted for the fiscal year 2013 audit, the Charter Holder had provided its policy for the determination of shared costs. In communications with the auditor subsequent to the audit's submission, Board staff was told that the Charter Holder did not implement this policy. This matter required the Charter Holder to submit a CAP. The CAP process has not yet been completed.

As reported in fiscal year 2014, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the fiscal year 2013 audit, except that:

> The Charter Holder failed to timely submit the fiscal year 2013 audit (see below).
>
> The audit included a qualified auditors' opinion on the financial statements. Specifically, the auditors' report stated that auditors were unable to obtain complete records supporting the Charter Holder's accounts payable balance and the "receivable from other agencies balance" as of June 30, 2013.
>
> The audit included a serious impact finding resulting from the Charter Holder's failure to retain financial records (see below). Specifically, the audit found 21 of 30 non-payroll cash disbursements tested did not have supporting documentation on file and 22 of 40 bank statements sampled from the fiscal year were not on file. A similar issue involving failure to retain supporting documentation was identified in the fiscal years 2010 and 2011 audits.

The audit included a serious impact finding resulting from the Charter Holder's failure to pay all of its federal payroll taxes. In communications with the auditor subsequent to the audit's submission, Board staff was told that the Charter Holder owed approximately $447,000, including approximately $90,000 in penalties and interest, to the Internal Revenue Service (IRS) for the audited fiscal year and prior fiscal years. A similar issue involving failure to pay federal payroll taxes was identified in the fiscal years 2010 and 2012 audits.

As reported in fiscal year 2013, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the fiscal year 2012 audit, except that:

The audit included a repeat medium impact finding resulting from the Charter Holder's failure to pay all of its federal payroll taxes incurred in the audited fiscal year and also taxes incurred in the first quarter of 2010. The audit further states that as of the fieldwork date, the Charter Holder was not in compliance with a payment plan approved by the IRS.

The audit included a minimal impact finding that has been identified in three or more consecutive audits. The minimal impact finding involved the Charter Holder not preparing interim financial statements that are complete, including note disclosures in conformity with Generally Accepted Accounting Principles.

Is the Charter Holder administering student admission and attendance appropriately?
Yes. Based on the available information and as reported in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to administering student admission and attendance.

Is the Charter Holder maintaining a safe environment consistent with state and local requirements?
Yes. Based on the available information in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to maintaining a safe environment.

Is the Charter Holder transparent in its operations?
Yes. Based on the available information in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to transparency of operations.

Is the Charter Holder complying with its obligations to the Board?
Based on the available information in the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to its obligations to the Board, except that on August 11, 2014, the Board considered the Charter Holder's failure to comply with: a) federal payroll tax requirements and b) state financial record retention requirements, which contributed to the Charter Holder's fiscal year 2013 audit including a qualified opinion on the financial statements, and approved the terms and provisions of a consent agreement in lieu of issuing a Notice of Intent to Revoke the charter contract and withholding 10% of the Charter Holder's monthly state aid apportionment. The Charter Holder approved the consent agreement and, to date, has complied with its terms and provisions.

Based on the available information in fiscal year 2014, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to its obligations to the Board, except that on November 21, 2013, the Board voted to withhold 10% of the Charter Holder's monthly state aid apportionment because of the Charter Holder's failure to timely submit the fiscal year 2013 audit. The withholding occurred for one month.

Based on the available information in fiscal year 2013, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to its obligations to the Board.

Is the Charter Holder complying with reporting requirements of other entities to which the Charter Holder is accountable?
Based on available information and as reported in the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the reporting requirements of other entities to which the Charter Holder is accountable, except that the fiscal year 2014 audit identified noncompliance with federal payroll tax requirements for prior fiscal years. The fiscal year 2014 audit also shows the Charter Holder has remitted the required payments under its installment plan with the IRS.

Based on the available information and as reported in fiscal year 2014, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the reporting requirements of other entities to which the Charter Holder is accountable, except that:

> The fiscal year 2013 audit identified that the Charter Holder had not remitted all payroll taxes to the IRS for the audited fiscal year and prior fiscal years, resulting in a serious impact finding (see above).
>
> The fiscal year 2013 audit identified that the Charter Holder had not made all required payments under its payment plan with the Arizona Department of Economic Security (ADES). In communications with the audit firm that occurred subsequent to the audit's submission, Board staff was told that as of June 30, 2013, the Charter Holder owed approximately $9,400 in unemployment contributions to ADES.
>
> The fiscal year 2013 audit identified that the Charter Holder had not paid all state payroll taxes to the Arizona Department of Revenue (ADOR) for the audited fiscal year and prior fiscal years. In communications with the audit firm that occurred subsequent to the audit's submission, Board staff was told that as of June 30, 2013, the Charter Holder owed approximately $42,000 to the ADOR. The audit also indicated that the Charter Holder paid the balance in full on October 3, 2013.

Based on the available information and as reported in fiscal year 2013, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to the reporting requirements of other entities to which the Charter Holder is accountable, except that:

> The fiscal year 2012 audit identified that the Charter Holder had not remitted all payroll taxes to the IRS for the audited fiscal year and also taxes incurred in the first quarter of 2010, resulting in a repeat medium impact finding (see above).
>
> The fiscal year 2012 audit identified that the Charter Holder had not paid all state payroll taxes to the Arizona Department of Revenue (ADOR) for the audited fiscal year.
>
> The Charter Holder failed to timely submit its fiscal year 2013 Budget to the Arizona Department of Education.

Is the Charter Holder complying with all other obligations?
Yes. Based on the available information in fiscal years 2013 and 2014 and the current fiscal year, the Charter Holder complies with applicable laws, rules, regulations and provisions of the charter contract relating to all other obligations.

VIII. Board Options

Option 1: The Board may deny the renewal. Staff recommends the following language provided for consideration: Having considered the statements of the Charter Holder today and the contents of the renewal portfolio which includes the academic performance, the fiscal compliance, and legal and contractual compliance of the Charter Holder provided to the Board for consideration of this request for charter renewal, I move to deny the request for charter renewal and to not grant a renewal contract to Legacy Schools on the basis that the Charter Holder failed to meet or make sufficient progress toward the academic performance expectations set forth in the Performance Framework as reflected in the Renewal Executive Summary, the Inventory Documents, and the DSP Final Evaluation and currently operates a school that has received an overall rating of "Does Not Meet Standard" in the most recent fiscal year for which there is State assessment data available and "Does Not Meet Standard" in the prior fiscal year. In addition, the Charter Holder has a history of poor academic performance and it does not meet the Board's financial performance expectations.

Option 2: The Board may deny the renewal unless the Charter Holder agrees to specific monitoring and reporting requirements. The following language is provided for consideration: Having considered the statements of the representatives of the Charter Holder today and the contents of the renewal portfolio which includes the academic performance, the fiscal compliance, and legal and contractual compliance of the Charter Holder provided to the Board for consideration of this request for charter renewal, I move to deny the request for charter renewal and to not grant a renewal contract to Legacy Schools on the grounds that the Charter Holder failed to meet or make sufficient progress toward the Academic Performance Expectations set forth in the Performance Framework as reflected in the Renewal Executive Summary, the Inventory Documents, and the DSP final evaluation. In addition, the Charter Holder has a history of poor academic performance and it does not meet the Board's financial performance expectations. The Charter Holder does, however, operate a school that has been designated with a letter grade of C in the current year and an average school (C by definition in statute) has the potential to improve its academic operations with the appropriate systemic changes and additional accountability. The Board, therefore, will grant a renewal contract to Legacy Schools for the continuation of Encore Arts Academy on the conditions that the Charter Holder agrees to: (1) be subject to specific monitoring and reporting requirements to ensure the Charter Holder immediately creates and implements a Performance Management Plan to make systemic changes that will align the Performance Management Plan evaluation criteria and that these changes result in improved academic performance in FY2016 and FY2017; and (2) operation under the renewal contract contingent on meeting the terms of the monitoring and reporting requirements for FY2016 and FY2017. The terms of the monitoring and reporting requirement must be reached within 60 days of today's date or it is the Board's decision that Legacy School's request for renewal of its charter is denied for the reasons already specified.

Option 3: The Board may determine that there is a basis to approve the renewal. The following language is provided for consideration: Renewal is based on consideration of academic, fiscal, and contractual compliance of the Charter Holder. In this case, the Charter Holder did not meet the academic performance expectations set forth in the Board's Performance Framework but was able to demonstrate sufficient progress toward the Board's expectations when it provided evidence that (1) it has implemented an improvement plan that includes a comprehensive curriculum system, comprehensive assessment system, comprehensive instructional monitoring system, and comprehensive professional development system, and (2): [*provide specific findings related to valid and*

reliable data that demonstrates improved academic performance]. Additionally, the Board has adopted an academic Performance Framework that allows for additional consideration of the Charter Holder throughout the next contract period. With that taken into consideration, as well as having considered the statements of the representatives of the Charter Holder today and the contents of the renewal portfolio which includes the academic performance, the fiscal compliance, and legal and contractual compliance of the Charter Holder provided to the Board for consideration of this request for charter renewal, I move to approve the request for charter renewal and grant a renewal contract to Legacy Schools.