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ACTION MEMORANDUM

TO:	SPCSA Board
FROM:	Mark Modrcin, Director of Authorizing Mike Dang, Manager of Organizational and Financial Performance
SUBJECT:	Agenda Item No. 6: Recommendations under the SPCSA Financial Performance Framework for FY20
DATE:	January 22, 2021

Background

As the Authority is aware, NAC 387.775 requires that all public charter schools undergo an annual financial audit conducted by an independent third-party. These audits must be submitted to governing boards no later than November 1 of each calendar year, and subsequently must be submitted to the SPCSA by December 1 of each year.

The results of these annual audits are then analyzed against the SPCSA Financial Performance Framework, which is a critical tool in evaluating a charter schools' financial well-being, health and performance as part of ongoing monitoring and the renewal decision making process. Charter schools have the autonomy to manage their finances consistent with state and federal law; however, sponsors must ensure that the schools they sponsor are financially stable and meeting SPCSA board approved financial performance standards.

As a reminder, the SPCSA Financial Performance Framework includes eight indicators, four aimed at assessing the near-term health of a school and four aimed at assessing the long-term sustainability and viability of a school. These indicators are as follows:

Near Term Indicators	**Sustainability Indicators**
Current Ratio	Total Margin and Aggregated Three-Year Total Margin
Unrestricted Days Cash-On-Hand Ratio	Debt to Asset Ratio
Enrollment Forecast Accuracy	Cash Flow
Debt (or Lease) Default	Debt or Lease Service Coverage Ratio

For each indicator, schools receive one of three ratings: Meets the Standard, Does Not Meet the Standard, or Falls Far Below Standard.

As stated in the SPCSA Financial Performance Framework technical guide, poor financial performance measure ratings may result in intervention by the SPCSA. Generally, a school with a financial framework profile results that include at least one indicator rated at Falls Far Below Standard and/or at least three indicators rated at Does Not Meet Standard may be recommended to enter the intervention process.

The Authority has three levels of intervention when schools do not meet financial standards. These levels are as follows: Notice of Concern, Notice of Breach and Notice of Intent to Terminate.

Analysis

SPCSA staff have reviewed and analyzed all received FY20 independent financial audits, and schools were provided preliminary ratings against the SPCSA Financial Performance Framework standards on December 18, 2020. SPCSA staff provided schools a three-week window to review and confirm performance against the established standards as adopted by the Authority.

Overall, results under the SPCSA Financial Performance Framework for SPCSA-sponsored schools indicate that the vast majority of schools appear to have been in strong financial positions for FY20. Of the 34[1] sponsored charter schools in the SPCSA portfolio for FY20, 26 earned "Meets Standard" ratings in at least six of the eight indicators. Additionally, 12 schools met performance standards under all eight indicators, and all SPCSA-sponsored schools met the performance standard under the Debt Default measure. This fiscal responsibility should be celebrated.

With one exception, all indicators appear to have provided high-quality data that closely aligned with SPCSA staff expectations. As a reminder, all performance standards included in the framework were tested before adoption so as to help ensure accuracy and reliability. The Enrollment Forecast Accuracy Indicator rated eleven schools Did Not Meet the Standard, with an additional 3 schools Falling Far Below Standard. This measure will be discussed more later in this memo.

A small number of schools earned a Does Not Meet Standard rating in three or more indicators, and/or earned one or more Falls Far Below Standard rating under any indicator. SPCSA staff has consulted with each of these schools to gather any additional evidence or context about their financial standing since releasing preliminary data in mid-December. These schools and their results under this framework are as follows[2]:

Discovery Charter School

Current Ratio	UDCOH	Enrollment Forecast	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow	Debt Coverage Ratio
FFBS	DNMS	DNMS	MS	DNMS	FFBS	DNMS	MS

[1] Schools formerly sponsored by the Achievement School District (ASD) are included in this total, but because their contracts with the SPCSA began on July 1, 2020, ratings for these schools are informational only for FY20.
[2] MS = Meets Standard; DNMS = Does Not Meet Standard; FFBS = Falls Far Below Standard

Doral Academy of Northern Nevada

Current Ratio	UDCOH	Enrollment Forecast	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow	Debt Coverage Ratio
MS	MS	MS	MS	FFBS	FFBS	DNMS	MS

Honors Academy of Literature

Current Ratio	UDCOH	Enrollment Forecast	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow	Debt Coverage Ratio
MS	MS	DNMS	MS	FFBS	MS	MS	MS

Legacy Traditional Schools

Current Ratio	UDCOH	Enrollment Forecast	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow	Debt Coverage Ratio
MS	MS	MS	MS	MS	FFBS	FFBS	MS

Nevada Virtual Academy

Current Ratio	UDCOH	Enrollment Forecast	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow	Debt Coverage Ratio
MS	DNMS	DNMS	MS	FFBS	MS	FFBS	DNMS

Quest Preparatory Academy

Current Ratio	UDCOH	Enrollment Forecast	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow	Debt Coverage Ratio
FFBS	DNMS	FFBS	MS	FFBS	FFBS	FFBS	DNMS

Signature Preparatory Academy

Current Ratio	UDCOH	Enrollment Forecast	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow	Debt Coverage Ratio
MS	MS	FFBS	MS	DNMS	FFBS	MS	MS

After considering the results above, as well as information gathered through discussions with each school above over the past several weeks, SPCSA staff has tailored recommendations so as to be responsive to the available performance data while also considering the individual context for each school.

Conclusion and Recommendations

The Financial Performance Framework technical guide states that a school earning at least one Falls Far Below rating and/or at least three Does Not Meet Standard ratings be recommended for intervention. SPCSA staff recommends a slightly modified approach for the data from FY20 for the primary reason that this is the first year since 2017 that formal ratings under a financial framework will be approved by the Authority. SPCSA staff have considerable trust that the framework in its current form provides an accurate snapshot of a school's financial health but recognize that transitioning to a new framework and meeting these expectations may take multiple years in some cases.

For these reasons, SPCSA staff recommends that the Authority:

- Table the ratings under Enrollment Forecast Accuracy measure for FY20. Available data suggests that this measure may need to be altered as many schools with otherwise adequate financial performance were unable to meet the standard as adopted by the Authority in 2019.

- Issue Notices of Concern to schools that earned a Does Not Meet Standard rating under multiple indicators, and also earned a Falls Far Below Standard rating under multiple indicators as this level of underperformance on multiple measures indicates the risk of significant financial hardship[3].

- Direct those schools not issued a Notice of Concern, but earning a Does Not Meet Standard rating in three or more indicators, and/or earned one or more Falls Far Below Standard rating under any indicator, to develop a targeted remediation plan in collaboration with SPCSA staff so as to ensure that financial performance improves in FY21. While a Notice is not recommended for this subset of schools, SPCSA staff wants to proactively address financial concerns with these schools prior to the end of FY21.

It is also noteworthy that SPCSA staff's analysis of FY20 audits do not indicate that the ongoing COVID-19 pandemic has had a significant negative impact on the financial health of public charter schools in the prior fiscal year. Nevertheless, all public schools are coping with financial hardships in the current fiscal year, and it is likely that the effect of the pandemic may impact FY22 as well. By requiring schools in financial distress to develop remediation plans, SPCSA staff believes this will help schools proactively work to address potential issues in upcoming fiscal years.

Proposed Motions:

- *Adopt the financial performance framework results for the entire SPCSA portfolio for FY20 for all indicators except the Enrollment Forecast Accuracy measure, and direct SPCSA staff*

[3] Ratings under the Enrollment Forecast Accuracy are excluded from these totals.

to review this measure prior to the start of FY22 for possible modifications for Authority consideration.

- *Issue a Notice of Concern to Discovery Charter School, Nevada Virtual Academy and Quest Preparatory Academy under the Financial Performance Framework for FY20, and require these schools to develop a financial performance improvement plan in collaboration with SPCSA staff and provide a written report on progress to date in implementing the plan by April 1, 2021.*
- *Direct Doral Academy of Northern Nevada, Legacy Traditional Schools, Honors Academy of Literature and Signature Preparatory Academy to develop a targeted remediation plan in collaboration with SPCSA staff.*