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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. 5: Recommendations under the SPCSA Financial Performance Framework for FY21 for select schools
Date:	February 15, 2022

Background

As the Authority is aware, NAC 387.775 requires that the "governing body of a charter school…shall cause the charter school…to be audited on an annual basis" by a "public accountant certified…." Pursuant to this regulation, 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 school's 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 in a manner not inconsistent 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 Variance[1]	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 present in this memo reviews and recommendations for 12 schools categorized into two groups. One group of nine (9) schools submitted their audits significantly late[2]; a second group of three (3) schools underwent an extended review of their audits and required additional information from the school before finalizing staff's recommendation.

Staff have completed reviews of all nine late Annual Independent Financial Audit/Reports for Fiscal Year Ending June 30, 2021 (FYE 21) submitted two or more days after December 1, 2021. Schools in this category were provided preliminary ratings against the SPCSA Financial Performance Framework standards on January 28, 2022. SPCSA staff provided schools an eight-day window to review and confirm or comment on performance against the established standards as adopted by the Authority.

Of the 12 total schools reviewed, three schools were rated as "Meets Standards" in all measures that were rated. Additionally, four schools received no "Falls Far Below Standards" and not more than two "Does Not Meet Standards". The schools, along with their rating results under the financial framework as well as staff analysis and staff recommendations are as follows[3]:

[1] Enrollment Variance was adopted by the Authority at its June 25, 2021 board meeting for FYE 22. As such, no results for FYE 21 will be presented.
[2] Failure to submit financial audits by statutory deadlines will result in deduction in points on the Organizational Performance Framework (see measure 2a).
[3] MS = Meets Standard; DNMS = Does Not Meet Standard; FFBS = Falls Far Below Standard

Doral Academy of Nevada

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

The audit was presented to the school board on January 27, which was 57 days after the December 1 deadline. Performance point deductions regarding late submissions like this are addressed on the Organizational Performance Framework and not on the Financial Performance Framework.

Doral Academy of Nevada has met standards on all rated measures and should be commended for their continued strong performance.

Staff recommends no further Board action in regard to Doral Academy of Nevada regarding their financial performance.

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	NR	MS	DNMS	FFBS	MS	MS

The audit was presented to the school board on January 27, which was 57 days after the December 1 deadline. Performance point deductions regarding late submissions like this are addressed on the Organizational Performance Framework and not on the Financial Performance Framework.

Doral Academy of Northern Nevada has shown improvement over the prior year. That said, of note is the improvement in Total Margin and Cash Flow. The Debt to Asset Ratio continues to fall far below standard. This rating is acknowledged under the school's Targeted Remediation Plan submitted to SPCSA staff last year, and is a function of the campus financing plan the school developed with the approval of their bond financing advisors. According to the school, the approach is countenanced by national bond rating agencies that focus on Unrestricted Days Cash On Hand and Debt Coverage Ratio measures over the Debt to Asset ratio. National bank lending practices typically give greater weight to Debt to Asset ratios, as seen in their Loan To Value lending policies.

The SPCSA financial performance rating model is based on both national best practices for leading authorizers as well as more conservative national bank lending practices and, consequently, shows the Debt to Asset ratio as Falls Far Below Standards.

Given the school's progress on their previously submitted Target Remediation Plan, Staff does not recommend any additional Targeted Remediation or Notice of Concern. Staff will continue to conduct regular reviews of the school's quarterly financial statements until such time that Doral Academy of Northern Nevada has no Falls Far Below Standards and no more than two ratings of Does Not Meet Standards.

Explore Academy

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

The audit was presented to the school board on January 27, which was 57 days after the December 1 deadline. Performance point deductions regarding late submissions like this are addressed on the Organizational Performance Framework and not on the Financial Performance Framework.

Fiscal Year 2021 was Explore Academy's first school year. For a first-year school, Explore did very well, with the exception of its Current Ratio. This Current Ratio measures the ability of the school to pay its near-term expenses by comparing its Current Assets against its Current Liabilities. Explore's rating means that the school has enough current assets to theoretically cover 79% (or 0.79) of its Current Liabilities. The Meets Standards ratings threshold is 110% (or 1.1), to have more than enough Current Assets to cover your Current Liabilities. In short, the current ratio for Explore raises questions about the school's ability to meet financial obligations and liabilities in the short-term.

Staff recommends the SPCSA board require the school to submit a Targeted Remediation Plan to the SPCSA.

Legacy Traditional School

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

Legacy Traditional Schools submitted its audit on time but is being presented in this board meeting as staff and the school reviewed the data and information more closely due to its working under a Targeted Remediation Plan from the prior school year of FYE 2020.

Legacy Traditional School has shown significant improvement over their prior year performance. The school submitted its audit two days early but is being presented in this board meeting as staff and the school reviewed the school more closely due to its working under a *Targeted Remediation Plan* from the prior school year of FYE 2020. The only measure that is not rated as "Meets Standards" is the Debt to Asset Ratio, which has improved from the prior year, but is expected to take several years to reach a Meets Standards rating under the school's Targeted Remediation Plan.

Staff recommends no further Board action as it relates to Legacy Traditional School so long as the school continues to follow their Targeted Remediation Plan.

Mater Academy of Nevada

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

The audit was presented to the school board on January 28, which was 58 days after the December 1 deadline. Performance point deductions regarding late submissions like this are addressed on the Organizational Performance Framework and not on the Financial Performance Framework.

Review of Mater Academy of Nevada's financial statements indicated that the decline in Unrestricted Days Cash on Hand (UDCOH) and Cash Flow which resulted in Does Not Meet Standards (DNMS) ratings was due to a few key factors. A major factor was that Mater Academy opened up the Mater East campus (July 1, 2020) with an "Average Daily Enrollment of 1,130.25." Their facilities asset balance went from $11m to $25m. Total Operating Expenses went from $16m for FYE 20 to $25m for FYE 21. Average daily expenses rose from $41k to $63k for the same period, respectively.

Another factor was a large amounts of receivables that were recorded prior to June 30th, but not paid until after July 1st. Additionally, subsequent to June 30th, Mater received notification from the Small Business Administration (SBA) that they would receive loan forgiveness on approximately $2.2 million in Paycheck Protection Plan (PPP) loans, which would bring them up to Meets Standards for Debt to Asset Ratio for FY21.

Consequently, according to additional information shared by Mater, the school's cash balances were down from $5.7m FYE 2020 to $3.3m FYE 2021 while the Accounts Receivables balance for the same two years increased from $1.7m FYE 2020 to $5.4m. These major changes, in addition to the major fiscal impacts from starting a new campus, all negatively impacted the school's ratings. SPCSA staff acknowledge delays in processing federal and state grant reimbursements. The SPCSA has invested in a new grant processing system which has greatly enabled faster grant processing.

Given these facts, Staff recommends no further Board action in regard to Mater Academy of Nevada.

Mater Academy of Northern Nevada

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

The audit was presented to the school board on January 28, which was 58 days after the December 1 deadline. Performance point deductions regarding late submissions like this are addressed on the Organizational Performance Framework and not on the Financial Performance Framework.

Mater Academy of Nevada (MANN) did not meet standards on two of the seven rated measures. Staff note the cash balance declined 11% Year Over Year (YOY) from SYE 2020 to SYE 2021, from $616,000 to $548,000. The Cash Flow measure compares whether the ending cash balance of the school increased or decreased YOY. Staff note the Accounts Receivable (AR) balance rose 96% from $314,000 to $618,000 using rounded numbers. If $69,000, or 11%, more of AR had converted to cash then MANN would have received a MS for both the Cash Flow measure and their UDCOH.

Given these facts, Staff recommends no further Board action in regard to Mater Academy of Nevada.

Nevada Virtual Academy

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

The audit was presented to the Nevada Virtual Academy Board and submitted early, before the December 1 deadline.

Nevada Virtual Academy has shown significant improvement over the last year, meeting standards in all measures but one, Total Margin. This measure contains a three year "lookback" measure, and consequently, staff believes this decline is primarily due to the contractual settlement to close their Elementary School prior to the 2019 – 2020 school year. The single year Total Margin after the closure was a $1.2m negative Total Margin. While enrollment levels have since recovered, since this measure remains in the Does Not Meet Standards range. SPCSA staff believe that the school is on track, based on its pro forma FYE 2022 budget, for this rating to turn to a Meets Standard for the FYE 2022.

Given this improvement, Staff recommends that the Notice of Concern issued to Nevada Virtual Academy be removed.

Pinecrest Academy of Nevada

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

The audit was presented to the school board on January 28, which was 58 days after the December 1 deadline. Performance point deductions regarding late submissions like this are addressed on the Organizational Performance Framework and not on the Financial Performance Framework.

The DNMS for Pinecrest Academy of Nevada's Debt to Asset (DA) ratio is a result of the bond financing approach the school uses which prioritizes Debt Coverage Ratio (DCR or DSCR) and Unrestricted Days Cash On Hand (UDCOH) over the DA. This allows essentially 100% or greater than 100% financing compared with the more conservative bank financing practices of lending less than 100% financing, such as 80% loan to value financing for a home. The SPCSA rating model takes a more conservative approach and is based on national best practices.

Staff recommends no Board action in regard to Pinecrest Academy of Nevada.

Pinecrest Academy of Northern Nevada

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

The audit was presented to the school board on January 28, which was 58 days after the December 1 deadline. Performance point deductions regarding late submissions like this are addressed on the Organizational Performance Framework and not on the Financial Performance Framework.

Staff commend PANN for its financial management and outcomes.

Staff recommends no Board action in regard to Pinecrest Academy of Northern Nevada.

Signature Preparatory Academy

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

The school submitted its audit two days early but is being presented in this board meeting as staff reviewed the available data more closely due to its working under a Targeted Remediation Plan from the prior school year of FYE 2020, and also requested additional information from the school.

Signature Prep is under a Targeted Remediation Plan due to their two ratings of concern for Fiscal Year 2020. The first was their Debt to Asset (DA) Ratio rating of Falls Far Below Standards (FFBS). The second was their Total Margin rating of Does Not Meet Standards (DNMS).

The school is commended for improving to the point where their former Debt to Assets ratio improved from a FFBS though it is still a concern because the rating is a DNMS. And it is also commendable that the school was able to improve their Total Margin rating from a DNMS to a Meets Standards (MS). Despite these noted improvements, though, concerns remain as the school has gone from two areas of concern for FYE 20 to four concerns for FYE 21, though all four measures are rated as “Does Not Meet Standards” and none are FFBS ratings. Ultimately, these concerns lead staff to recommend issuing a Notice of Concern as detailed below.

The school’s Current Ratio rating was DNMS for Fiscal Year 2021. While its current liabilities declined, which was favorable, its current assets declined as well, and at the end of the fiscal year, were less than current liabilities. This indicates the school does not have enough current assets to cover current liabilities, which is highly concerning. When additional information was requested from the school, Signature Prep and its Education Management Organization (EMO) pointed out that by working with the school, payments can be deferred, noting that 51% of its current obligations are to the EMO. The school and EMO noted an expectation of cash flow savings in coming years as Signature Prep now owns its campus rather than leasing it, and the respective mortgage payments are less than the former lease payments[4]. The school’s response did not indicate the scope nor the extent of the payment deferrals so the parameters of this possible credit line are unknown at this time.

Second, the school’s Unrestricted Days Cash On Hand (UDCOH) ratio deteriorated, also, from 65 days for FYE 20 to 25 days for FYE 21 compared against the standard of 30 days for schools in their second year of operations. This indicates the school had less than a month’s worth of cash available to pay its bills. This estimated average daily expenditure level was up 63% from where it was FYE 20. Given that the state basic per pupil portion of funding payment is made approximately every 30 days SPCSA staff recommend the school provide supporting documentation evidencing its financial planning and ability to ensure it is able to operate in a fiscally sound manner.

Bond financing provided cash which the school was able to use to build cash and reduce some short-term obligations. Staff note that if the bond financing included funds to reduce other liabilities, essentially a debt consolidation, then that may be prudent, assuming bond funds were not used to pay operating expenses. If bond funds were used to pay operating expenses that would not be a best practice versus borrowing for capital improvements like a new campus.

Third, the school made significant progress in improving its Debt to Asset Ratio—though the current DNMS rating still falls below the performance standard adopted by the Authority. The FFBS rating improved to a DNMS in Fiscal Year 2021. The Targeted Plan of Remediation noted that several years would still likely be needed for the school to reach a Meets Standards rating on the Debt to Asset Ratio as the school is using a bond financing approach similar to what some other schools use.

The school with its EMO explained that its method of highly leveraged financing results in the high Debt to Asset ratio. SPCSA staff recognize that but remain concerned with high leverage financing as has been discussed with other similarly situated schools.

Fourth, the school’s Cash Flow declined 37% during FYE 21. Its unrestricted cash balance declined from $722,000 to $452,000 (rounded). Average daily expenses rose 63% Days Cash On Hand fell to less than a month when the state base pay is paid monthly. The school does state it is experiencing positive cash flow in the current FYE 22 and expects this trend to continue for the remainder of the current fiscal year.

[4] Signature Preparatory Academy was approved to acquire its campus at the Authority board meeting on March 19, 2021.

The school was also able to improve their Total Margin rating to a Meets Standard rating for FYE 21 and should be commended for this improvement.

Given ongoing concerns with its financial performance as described above, Staff recommend a Notice of Concern be issued to Signature Preparatory Academy. This would result in the school entering the intervention ladder, being under heightened oversight in the current year and upcoming fiscal year, and requiring the school to submit a Targeted Remediation Plan.

Somerset Academy of Las Vegas

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

The audit was presented to the school board on January 11, which was 41 days after the December 1 deadline. Performance point deductions regarding late submissions like this are addressed on the Organizational Performance Framework and not on the Financial Performance Framework.

Staff commend Somerset Academy for its financial management and outcomes.

Staff recommends no Board action in regard to Somerset Academy of Las Vegas.

Sports Leadership and Management Academy

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

The audit was presented to the school board on January 27, which was 57 days after the December 1 deadline. Performance point deductions regarding late submissions like this are addressed on the Organizational Performance Framework and not on the Financial Performance Framework.

Sports Leadership and Management Academy (SLAM) received a DNMS for their Unrestricted Days Cash On Hand (UDCOH) measure. The UDCOH measure estimates how many days the school would be able to pay its bills. When reviewing this information, SPCSA staff also weighs related information to consider how many days could be covered if accounts receivables balances were added in. This is especially important this past year as many schools and the SPCSA were impacted by the ongoing COVID-19 pandemic. Specifically, the various additional federal Covid related funds impact accounts receivables balances.

While the Accounts Receivable balances are not considered in the official UDCOH measure, in order to stay aligned with national best practices to focus on available liquid assets, namely unrestricted cash, if the accounts receivable balances were considered, then the days cash would exceed the 60 day threshold.

SLAM's declining Cash Flow measure resulting in a DNMS may be the result of the cash balance decline resulting from the slowdown in AR processing times. SPCSA staff acknowledge delays in processing federal and state grant reimbursements. The SPCSA has been able to acquire a new grants processing system which appears to be helping resolve such issues.

Staff recommends no Board action in regard to Sports Leadership and Management Academy.

Conclusion and Recommendations

After considering the results above, as well as additional information provided through the SPCSA staff review process, which included discussions with several schools, SPCSA staff has tailored recommendations so as to be responsive to the available performance data while also considering the individual context for each school.

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 may be recommended for intervention. SPCSA staff has performed further review and analysis on each school that received at least one Falls Far Below and/or at least three Does Not Meet Standard ratings as commented on above.

Consequently, SPCSA staff recommends that the Authority:

1. Adopt the presented financial performance framework results for schools listed in this memo.
2. Remove the Notice of Concern from Nevada Virtual Academy.
3. Request a Targeted Remediation Plan from Explore Academy.
4. Issue a Notice of Concern to Signature Preparatory Academy.

Proposed Motion[5]:

Adopt the presented financial performance framework results for the schools listed in the attached ratings summary document for FY21 for all indicators except the Enrollment Forecast Accuracy measure, which was not rated; and

Rescind the Notice of Concern for Nevada Virtual Academy, removing them from the Financial Performance Framework intervention ladder as the school is Meeting Standards as described in the technical guide.

Direct Explore Academy to develop a Targeted Remediation Plan as the school is not Meeting Performance Standards as described in the technical guide, raising concerns about the financial health of the school.

Issue a Notice of Concern for Signature Preparatory Academy, placing them on the Financial Performance Framework intervention ladder as the school is not Meeting Performance Standards as described in the technical guide, raising concerns about the financial health of the school. Additionally, require the school 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, 2022.

[5] If these results are approved, SPCSA staff wants to reiterate that all schools not under a Notice of Concern are considered to be meeting performance standards under the Financial Performance Framework.