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ACTION MEMORANDUM

TO:	SPCSA Board
FROM:	Mike Dang, Manager of Organizational and Financial Performance Mark Modrcin, Director of Authorizing
SUBJECT:	Agenda Item #9: Recommendations Under the SPCSA Financial Performance Framework for FY22: CIVICA Career and Collegiate Academy, Explore Academy, and Mater Academy of Northern Nevada.
DATE:	June 23, 2023

Overview

At the Authority's board meetings on March 3 and May 19, SPCSA staff presented analysis and recommendations for 31 of the Authority's 38 charter schools[1] regarding their Fiscal Year Ending June 30, 2022 (FY 22) independent financial audits.

This memorandum and the recommendations herein pertain to three (3) schools: CIVICA Career and Collegiate Academy (CIVICA), Explore Academy (Explore), and Mater Academy of Northern Nevada (MANN). Staff received the audits from CIVICA, Explore and MANN in late May. Staff reviewed the audits and presented their preliminary findings to the schools during the week of May 29th. Schools were given one week to respond with any additional information.

At this time, the SPCSA has not received final audits for the following four schools: Doral

[1] The recommendation memorandum from March 3, 2023 states that recommendations were made for 30 schools. However, during the March 3, 2023 board meeting, SPCSA staff asked the Authority to table the rating and recommendations pertaining to one school, Democracy Prep at the Agassi Campus. The rating for Democracy Prep at the Agassi Campus was subsequently adopted during the May 19, 2023 board meeting.

Academy, Doral Academy of Northern Nevada, Pinecrest Academy of Nevada, and Pinecrest Academy of Northern Nevada. Results and recommendations regarding these outstanding audits will be presented at a future meeting.

Background

The following background information was initially provided at the March 3, 2023, SPCSA Board Meeting when the Authority reviewed the performance and ratings for most sponsored charter schools.

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 school's financial well-being, health, and performance as part of ongoing monitoring. Charter schools manage their finances consistent with state and federal law; however, the SPCSA is responsible for ensuring that sponsored schools are financially stable and meeting the SPCSA board-approved financial performance standards. Ultimately, these standards are intended to ensure that schools are financially healthy and that the financial position of the school is not jeopardizing its ability to operate and effectively serve students in both the short and long-term.

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 (UDCOH)	Debt to Asset Ratio
Enrollment Variance[2]	Cash Flow
Debt (or Lease) Default	Debt or Lease Service Coverage Ratio

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

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

[2] Enrollment Variance was adopted by the Authority at its June 25, 2021, board meeting for FY 23. As such, no results for FYE 22 will be presented. This leaves a total of seven indicators being reported for FY22.

levels are as follows: Notice of Concern, Notice of Breach and Notice of Intent to Terminate. It is important to note that the SPCSA considers the academic, financial, and organizational performance of a charter school, including any past or current notices, when determining whether to approve a request for an amendment to its charter contract (NRS 388A.276 and NAC 388A.400). Additionally, past performance, including any past or current notices is considered when determining whether to renew a charter contract (NRS 388A.285).

Analysis

Following SPCSA staff's initial review and analysis of the Fiscal Year Ending June 30, 2022 (FY 22) independent financial audits for CIVICA, Explore and MANN, each school was provided preliminary ratings against the SPCSA Financial Performance Framework standards and a window within which the school could review, confirm and/or comment on their preliminary ratings against the established standards as adopted by the Authority.

As part of SPCSA staff's review of independent financial audits, SPCSA staff took into consideration a unique circumstance which was outlined in the memorandum to the Authority on March 3, 2023. First, the SPCSA experienced delays in providing timely grant reimbursements to schools during FY22, in part due to the significant influx of federal emergency grant funds. In some cases, these delays may have resulted in a school audit reporting less cash on hand than would have otherwise been available at the end of the fiscal year. SPCSA staff determined the amount of reimbursement that should have been paid by the end of the fiscal year, and how to appropriately account for this under the framework, typically by adding to the cash account the amount that is removed from the accounts receivable account. Consequently, this approach was incorporated into all impacted calculations within the framework.

In addition, two of the three schools addressed within this memorandum had significant deficiencies or findings identified as part of their independent financial audit. While the Financial Performance Framework evaluates the financial health of schools, audit findings would typically be reflected under the Organizational Performance Framework which includes a measure related to the financial management and oversight of the school. Appendix C summarizes any significant audit findings for sponsored schools that are not otherwise addressed within this memorandum. SPCSA staff will monitor these schools as they work to resolve these deficiencies or findings. Significant audit findings may be considered should a school seek a contract amendment and/or renewal and SPCSA staff may recommend further action in the future for schools with significant audit findings.

Proposed motions can be found below, along with details regarding the financial performance each of school.

Proposed Motions

1. Adopt the Financial Performance Framework results presented for the schools listed in Appendix A for CIVICA Career and Collegiate Academy, Explore Academy, and Mater Academy of Northern Nevada, for fiscal year 2022 for all indicators except the Enrollment Variance measure, which was not rated.

2. Issue a Notice of Concern under the Financial Performance Framework to both CIVICA Career and Collegiate Academy and Explore Academy, require each to develop and submit a financial

improvement plan, and require each to provide quarterly updates regarding the implementation of the improvement plan.

The remainder of this memorandum presents the following items.

Schools Recommended for Notices of Concern

Appendix A: Financial Performance Framework Results: CIVICA, Explore and MANN

Appendix B: Previously Approved Financial Performance Framework Results

Appendix C: Schools with Identified Material Weaknesses in their Audit: The financial audit for MANN included identified material weaknesses as determined by their auditor.

Schools Recommended for Notices of Concern

CIVICA

Current Ratio	Unrestricted Days Cash on Hand	Enrollment Variance	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow	Debt/Lease Service Coverage Ratio
FFBS	MS	NR	MS	MS	FFBS	-	MS

CIVICA earned four Meets Standards ratings (MS) and 2 Falls Far Below Standards (FFBS) ratings. Since the 2021 – 22 school year was the school's first year of operations, the school did not have sufficient data with which to calculate its Cash Flow rating. SPCSA staff anticipates that this measure will be rated for FY23. Overall, SPCSA staff finds that CIVICA is in a healthy cash position for a first-year school and did end the year with a positive total margin. However, the school is leveraged beyond the Meets Standard threshold as defined in the SPCSA Financial Performance Framework. The Technical Guide calls for a Current Ratio of at least 1.1. Stated another way, for every $1 of liabilities that must be paid within the next year, there must be at least $1.10 of cash or assets that can be converted into cash within the next year available to the school to ensure that the school can meet its current obligations for the upcoming year and does not enter a debt default. As of June 30, 2022, CIVICA had a current ratio of only 0.74, signaling they are at a higher risk for a debt default, and as such, more likely to not meet all required interest or principal payments/obligations. This resulted in a Falls Far Below Standard rating.

Additionally, schools are required to maintain a debt to asset ratio of not more than 90%. Stated another way, if a school had $100 in assets, they should not have more than $90 in debt. As a reminder, if the ratio is less than one, most of the school's assets are financed through equity. If the ratio is greater than one, most of the school's assets are financed through debt. It is generally accepted that a ratio less than 0.9 indicates a financially healthy balance sheet, both in assets and liabilities. As of June 30, 2022, CIVICA had a debt to asset ratio of 104.8%. This resulted in a Falls Far Below Standard rating.

As noted in the chart above, CIVICA did earn a Meet Standard rating on the remaining four indicators.

The auditor also identified multiple findings within the CIVICA FY22 audit. The auditor noted a financial reporting material weakness as the annual financial statements were inconsistent, presented inaccurate classification of net position, missed required disclosures, and did not properly address new GASB statements. The auditor went on to note that accounting personnel at CIVICA did not have adequate training to prepare the financial statements without significant assistance, and that the auditors were required to make multiple material adjustments. Additionally, auditors noted several other material weaknesses:

- Student activity fund revenue records and supporting documentation were not appropriately maintained,
- Revenue recognition did not occur with adequate internal controls,
- Long-term debt was not reported with proper internal controls,
- Accrued payroll reconciliation and recording did not occur with proper internal controls,

- Public Employees' Retirement System of Nevada (PERS) amounts were not disclosed and reported accurately, and
- Cash and bank reconciliations were not appropriately reconciled for duplicate, void, or other errors, signaling that the school did not have adequate internal controls.

The audit notes that in response to these material weaknesses, Academica Nevada has increased staffing in order to realign staff responsibilities to reduce workloads and provide additional oversight and review. Several other procedural changes, such as the process for payroll accrual, have been modified to reduce the risk of errors or future issues. As previously noted, significant audit findings may be considered should the school seek a contract amendment and/or renewal and SPCSA staff may recommend further action in the future in response to significant audit findings.

In conclusion, given that the school earned two Falls Far Below Standards ratings, SPCSA staff recommends that the Authority issue a Notice of Concern.

SPCSA staff recommends that the Authority issue CIVICA a Notice of Concern, require the school develop and submit a financial improvement plan with SPCSA staff, and require the school to provide a status update on implementing the improvement plan when it submits its quarterly financial statements to the SPCSA. The improvement plan should include an update on how the identified material weaknesses described in the FY22 audit are being resolved.

Explore Academy

Current Ratio	Unrestricted Days Cash on Hand	Enrollment Variance	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow	Debt/Lease Service Coverage Ratio
FFBS	FFBS	NR	MS	DNMS	FFBS	DNMS	DNMS

Explore earned one Meets Standard (MS) rating, three Does Not Meet Standard (DNMS) ratings, and three Falls Fall Below Standard (FFBS) ratings. Of those that are not Meeting Standard, the most concerning ratings are the Total Margin and Unrestricted Days Cash on Hand, which was negative. As a reminder, the Unrestricted Days Cash-On-Hand ratio indicates how many days a school can pay its operating expenses without an inflow of cash. National standards state 60-120 days of cash-on-hand is considered a model practice for established schools. Because the 2021 – 22 school year was Explore's second year of operations, the school is expected to have at least 30 days cash on hand.

The other measure most concerning to SPCSA staff is the school's Total Margin, which was negative by a significant amount. This measure calculates the surplus or deficit a school generates from its total revenues less its expenses, and more importantly, whether or not the school is operating within its available resources. Explore's negative margin signals that the school's expenditures outpaced their revenues for FY22.

Explore Academy also earned Does Not Meet Standard ratings under both the Cash Flow and Debt/Lease Service Coverage Ratio measures. Cash Flow measures changes in a school's end of year cash balance, with growth in this number signaling strong financial health. Explore's cash balance was exhausted from FY21 and their balance was $0 as of June 30, 2022.

The school's Debt/Lease Service Coverage Ratio indicates a school's ability to cover its debt or long-term lease obligations, and measures the degree to which a school can pay facility principal and interest payments based on the current year's net income and available cash. Explore's ratio for FY22 was -29.76. To Meet Standards, a score of at least 1.10 is needed. This signals that the school is at risk of not being able to cover its debt obligations.

Finally, Explore Academy earned a Falls Far Below Standard rating for both the Current Ratio and Debt to Asset Ratio. The meaning and importance of these measures is previously described in this memo on page 4. Explore Academy's Current Ratio was calculated to be 0.37, well below the 1.1 threshold to Meets the Standard, signaling they are at an elevated risk for debt default. The school's Debt to Asset Ratio was calculated to be 137.8%, well exceeding the 90% threshold to Meet the Standard. This indicates that the school is heavily reliant on debt financing.

Staff have already met with Explore leadership to discuss the school's financial position. Explore had significant challenges with their start up and first year of operations, and the school's leadership team has indicated this negatively impacted their results in FY22. The school recently replaced their back-office service provider and, according to the school leadership team, this change has resulted in improvements to their financial position during FY23. The school is already working on an improvement plan, part of which includes aggressively pursuing their growth goals, which the school is well on track for meeting according to school leadership.

Given that the school earned three Does Not Meet Standard ratings and three Falls Far Below Standard ratings, SPCSA staff recommends that the Authority issue a Notice of Concern.

SPCSA staff recommends the Authority issue Explore a Notice of Concern, require the school develop and submit a financial improvement plan with SPCSA staff, and require the school to provide a status update on implementing the improvement plan when it submits its quarterly financial statements to the SPCSA.

Appendix A: Financial Performance Framework: CIVICA, Explore, and MANN

	School	Current Ratio	UDCOH	Enrollment Variance	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow Measures	Debt Coverage Service Ratio
1	CIVICA	FFBS	MS	NR	MS	MS	FFBS	MS	MS
2	Explore	FFBS	FFBS	NR	MS	DNMS	FFBS	DNMS	DNMS
3	MANN	MS	MS	NR	MS	MS	DNMS	MS	MS

Appendix B: Financial Performance Framework Ratings – Previously approved

	School	Current Ratio	UDCOH	Enrollment Variance	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow Measures	Debt Coverage Service Ratio
1	Alpine Academy	DNMS	MS	NR	MS	DNMS	MS	MS	DNMS
2	Amplus Academy	MS	MS	NR	MS	DNMS	DNMS	MS	MS
3	Beacon Academy	MS	MS	NR	MS	MS	MS	MS	MS
4	Coral Academy of Science	MS	MS	NR	MS	MS	MS	MS	MS
5	Democracy Prep	DNMS	DNMS	NR	MS	DNMS	MS	MS	DNMS
6	Discovery Charter School	FFBS	DNMS	NR	MS	MS	MS	MS	MS
7	Elko Institute for Academic Achievement	MS	MS	NR	MS	MS	MS	MS	MS
8	Equipo Academy	MS	MS	NR	MS	DNMS	MS	DNMS	MS
9	Founders Academy	MS	MS	NR	MS	MS	MS	DNMS	MS
10	Freedom Classical Academy	MS	MS	NR	MS	MS	MS	MS	MS
11	Futuro Academy	MS	MS	NR	MS	MS	MS	MS	MS
12	GEMS (fka GALS)	MS	MS	NR	MS	DNMS	DNMS	MS	DNMS
13	Honors Academy of Literature	MS	MS	NR	MS	DNMS	MS	FFBS	DNMS
14	Imagine School at Mountain View	MS	MS	NR	MS	MS	MS	MS	MS
15	Leadership Academy of Nevada	MS	MS	NR	MS	MS	MS	DNMS	MS
16	Learning Bridge Charter School	MS	MS	NR	MS	MS	MS	MS	MS
17	Legacy Traditional School	MS	MS	NR	MS	MS	FFBS	MS	DNMS
18	Mater Academy of Nevada	MS	MS	NR	MS	MS	DNMS	MS	MS
19	Nevada Connections Academy	MS	MS	NR	MS	DNMS	MS	FFBS	MS
20	Nevada Prep	MS	DNMS	NR	MS	FFBS	FFBS	MS	DNMS
21	Nevada Rise	MS	MS	NR	MS	MS	MS	MS	MS
22	Nevada State High School	MS	MS	NR	MS	MS	MS	MS	MS
23	Nevada State High School - Meadowood	MS	MS	NR	MS	MS	MS	MS	MS
24	Nevada Virtual Academy	MS	MS	NR	MS	DNMS	MS	MS	MS
25	Oasis Academy	MS	MS	NR	MS	MS	MS	MS	MS
26	Quest Academy	MS	MS	NR	MS	MS	MS	MS	MS
27	Signature Preparatory	MS	MS	NR	MS	DNMS	DNMS	MS	DNMS
28	Silver Sands Montessori School	MS	MS	NR	MS	MS	MS	MS	MS
29	Somerset Academy of Las Vegas	MS	MS	NR	MS	MS	MS	MS	MS
30	Sports Leadership and Management Academy	MS	MS	NR	MS	MS	DNMS	MS	MS
31	TEACH Academy	MS	FFBS	NR	MS	DNMS	FFBS	NR	DNMS

Appendix C: Schools with Significant Deficiencies in their Audit

Because the final FY22 financial audit for MANN included specific findings and identified deficiencies, SPCSA staff will conduct ongoing monitoring under the Organizational Performance Framework to monitor the school's progress in resolving the deficiencies and findings. MANN will be asked to provide a status update on resolving these matters as part of quarterly financial statements submitted to the SPCSA.

Mater Academy of Northern Nevada (MANN)

Current Ratio	Unrestricted Days Cash on Hand	Enrollment Variance	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow	Debt/Lease Service Coverage Ratio
MS	MS	NR	MS	MS	DNMS	-	MS

Mater Academy of Northern Nevada Met Standards on six of seven measures. The only measure the school earned a Did Not Meet Standards rating for was Debt to Asset Ratio, which at 90.6%, just exceeded the 90.0% Meets the Standard threshold.

The auditor also identified multiple findings within the MANN FY22 audit. The auditor noted a financial reporting material weakness as the annual financial statements were inconsistent, presented an inaccurate classification of net position, missed required disclosures, and did not properly address new GASB statements. The auditor went on to note that accounting personnel at MANN did not have adequate training to prepare the financial statements without significant assistance, and that the auditors were required to make multiple material adjustments. Additionally, auditors noted several other material weaknesses:

- Student activity fund revenue records and supporting documentation were not appropriately maintained,
- Revenue recognition did not occur with adequate internal controls,
- Long-term debt was not reported with proper internal controls,
- Accrued payroll reconciliation and recording did not occur with proper internal controls,
- Public Employees' Retirement System of Nevada (PERS) amounts were not disclosed and reported accurately,
- Compensated absences were not evaluated to identify what liability should be reported, and the school did not have adequate internal controls to ensure compensated absences were monitored and reconciled, and
- Proper reconciliation and recording with respect to the National School Lunch Program (NSLP) did not occur, and the school did not follow their own internal policy.

The audit notes that in response to these material weaknesses, Academica Nevada increased staffing to realign staff responsibilities to reduce workloads and provide additional oversight and review. Several other procedural changes, such as the process for payroll accrual, have been modified to reduce the risk of errors or future issues. As previously noted, significant audit findings may be considered should the school seek a contract amendment and/or renewal and SPCSA staff may recommend further action in the future in response to significant audit findings.