

EXHIBIT AU

EXHIBIT AU

BRIAN SANDOVAL
Governor

STATE OF NEVADA

PATRICK GAVIN
Director



STATE PUBLIC CHARTER SCHOOL AUTHORITY
1749 North Stewart Street Suite 40
Carson City, Nevada 89706-2543
(775) 687 - 9174 · Fax: (775) 687 - 9113

December 12, 2014

Eddie Grub, Board President
Silver State Charter School
788 Fairview Drive
Carson City, NV 89701

RE: Notice of Breach

This is Silver State Charter School's first Notice of Breach due to organizational underperformance as tracked in the 2014-2015 Authority Organizational Framework. This Notice of Breach for organizational underperformance is issued separately from and parallel to the Authority's Notice of Breach for academic underperformance as tracked in the 2014-2015 Authority Academic Framework.

In June 2013, the State Public Charter School Authority Board adopted the Performance Framework, which provides charter school boards and leaders with clear expectations, fact-based oversight, and timely feedback while ensuring charter autonomy. Pursuant to NRS 386.527, the Performance Framework is required to be incorporated into a Charter Contract. Within the Performance Framework, the following performance outcomes may be cause for revocation/termination of a school's charter:

Organizational underperformance is defined as the failure to meet operational standards to which a charter school should be accountable to its sponsor and the public.

As defined by the Performance Framework, all schools begin outside of the intervention ladder and are considered to be in Good Standing. Schools in Good Standing receive non-intrusive regular oversight and submissions tracking. Schools must meet performance targets and expectations including compliance and maintain open communication with us in exchange for this level of non-intrusive oversight.

Schools can enter Level One of the intervention ladder if the Authority receives a verified complaint of material concern, or if regular oversight generates significant questions or concerns. Schools can enter the intervention ladder at Level Two if the school fails to comply with a material term of its charter contract. Silver State's Organizational Performance for the 2014-2015 school year has generated both serious concern and evidence of material non-compliance and has moved Silver State into Level Two of the intervention ladder.

As of December 12, 2014, the school has not submitted a complete and compliant Annual Independent Audit into Epicenter. The complete and compliant audit was due to be submitted into Epicenter by December 1, 2014. While the school did submit an audit by the deadline, the submission is incomplete: pursuant to NAC 387.775, the Annual Independent Audit must include not only the audited financials, but also an analysis of and findings on compliance with applicable statutes and regulations and a management letter outlining any recommendations for improvement. The management letter is not evident based on a review of the submission. Based on the recent and historical financial and operational issues which have previously been reported by members of the Silver State Board to the Authority and a review of the discussion of these topics in the school's minutes, it is highly unlikely that the school did not receive multiple recommendations for improvement. Moreover, the failure to include a management letter also raises serious concerns regarding the board's commitment to transparency and accountable governance. As documented both by letters submitted by departing board members and the board's own minutes, there is a significant discrepancy between the balances reported in the school's bank accounts and the amounts reflected in the school's accounting system. Absent a management letter which adequately explains this discrepancy, documents the root cause, and prescribes appropriate corrective actions, there is no way to assure external parties that serious mismanagement or malfeasance has not occurred. Put simply, verbal or written representations that the board is satisfied that no mismanagement or malfeasance has occurred is not sufficient to assuage the concerns of either the Authority or the general public. Taken in aggregate, this omission of a required element of the Annual Independent Audit and the school's board's own documented knowledge of inadequately explained discrepancies between the school's bank statements and the accounting system represent multiple material violations of the charter contract and raise serious concerns about the organizational viability of Silver State Charter School.

To return to Good Standing, Silver State must 1) submit complete and compliant Annual Independent Audit, including the required the management letter; 2) comply fully with a forensic audit of the school's finances and operations by an independent accounting firm selected by and under the direction of the Authority and receive a clean audit opinion from that firm; 3) comply with all reporting requirements and deadlines; and 4) comply fully with all laws and regulations applicable to public charter schools. Failure to meet the requirements specified in the Notice of Breach will result in entry to Level 3, intent to revoke for Persistent

Underperformance. Moreover, information gathered from a review of the complete and compliant Annual Independent Audit or the forensic audit of the school's finances and operations may result in the issuance of a Notice of Concern or a Notice of Breach due to financial underperformance.

The State Public Charter School Authority believes strongly in a quality public school of choice for every Nevada child, and we hope that Silver State will join us in increasing the number of State Public Charter School Authority-sponsored quality charter schools by improving Silver State's organizational performance in the 2014-2015 school year.

A handwritten signature in black ink, appearing to read "Patrick Gavin". The signature is fluid and cursive, with the first name "Patrick" being more prominent than the last name "Gavin".

Patrick Gavin, Director

State Public Charter School Authority

1749 North Stewart Street Suite 40

Carson City, NV 89706

CC: Steve Knight

SPCSA Board Members

Silver State Charter School Board Members