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ACTION MEMORANDUM

TO: SPCSA Board
FROM: Mike Dang, Manager of Organizational and Financial Performance
SUBJECT: Recommendations Under the SPCSA Financial Performance Framework for FY22: Doral Academy of Northern Nevada
DATE: July 28, 2023

Overview

At the Authority's board meetings on March 3, May 19, and June 23, SPCSA staff presented analysis and recommendations for 34 of the Authority's 38 charter schools¹ regarding their Fiscal Year Ending June 30, 2022 (FY 22) independent financial audits. Today staff present its findings and recommendations regarding the Doral Academy of Northern Nevada (DANN). Staff received the audit from DANN on June 29 and, after reviewing the audit, presented preliminary findings to the school during the week of July 3rd. The school was given one week to respond with any additional information.

Staff recently received the audit for Pinecrest Academy of Northern Nevada (PANN) and are in the process of reviewing it to present preliminary findings to the school. Currently, the SPCSA has not received final audits for the following two schools: Doral Academy of Nevada and Pinecrest Academy of Nevada. Results and recommendations regarding these remaining audits will be presented at a future meeting.

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.

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 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,

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.

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 audit for DANN, the 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.

Second, the Financial Performance Framework technical guide, as adopted by the Authority provides for a possible adjustment to a school's rating under the Cash Flow and/or Unrestricted Days Cash-On-Hand measures in the event that the school makes a large capital investment that results in a decline in the cash balance. In the case of DANN, additional information was presented that has been incorporated into the rating under the Cash Flow measure as further detailed within this memorandum.

In addition, DANN's auditors identified numerous material weaknesses and a significant deficiency as part of their independent financial audit. A material weakness has been defined as "a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis." A significant deficiency has been defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of the company's financial reporting." 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. SPCSA staff will monitor this school as it works 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 Doral Academy of Northern Nevada, for fiscal year 2022 for all indicators except the Enrollment Variance measure, which was not rated.**

The remainder of this memorandum presents the following items.

Doral Academy of Northern Nevada

Appendix A: Financial Performance Framework Results: DANN

Appendix B: Previously Approved Financial Performance Framework Results

Doral Academy of Northern Nevada (DANN)

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	MS	DNMS	MS

The preliminary FY22 ratings for DANN showed a Cash Flow rating of Falls Below Standard (FFBS), along with six Meets Standard (MS) ratings and the Enrollment Variance not being rated for FY22.

The Cash Flow measure compares changes in a school’s end of year cash balances as a sign of a school’s financial health and well-being. In evaluating this measure, the Financial Performance Framework calls for calculating both the one-year cash flow and the multi-year cash flow over a three-year period. The one-year cash flow compares whether the most recent year’s ending cash balance was greater than the prior year’s ending cash balance, as of June 30th for each year.

Based on the information contained within the DANN audit, the school saw the ending cash balance decline from \$4.95 million in FY21 to an ending cash balance of \$2.8 million in FY22, for a one-year cash flow of -\$2.15 million. Stated another way, the audit showed a 65% decline in the school’s end of year cash balance from FY21 to FY22. The multi-year cash flow compares whether the most recent year’s ending cash balance was greater than the ending cash balance two years prior, as of June 30th for each year. DANN saw the ending cash balance decline from \$4.24 million in FY20 to an ending cash balance of \$2.8 million in FY22, for a multi-year cash flow of -\$1.44 million. In accordance with the Financial Performance Framework, schools showing negative cash flow for both the one-year and multi-year calculation are rated as Falls Far Below Standard, whereas schools showing negative cash flow for either the one-year or multi-year calculation are rated as Does Not Meet the Standard.

However, the Financial Performance Framework provides for situations where the generated rating may not tell the full story or may under- or over-state the financial health of a school. The Financial Performance Framework technical guide provides that the SPCSA board may consider whether a decline in cash was justifiable. For example, if the decline was the result of a school board’s decision to invest the school’s funds in a certain manner such as a capital project, the board may consider this in its final ratings determinations.

Doral Academy of Northern Nevada provided information to SPCSA staff that the decline in the end of year cash balance was in part due to an accounting reclassification by the school’s new auditor. The school had selected a new auditor in compliance with the state audit guide requiring schools to change auditors after being with the same auditor for six years. SPCSA staff reviewed information provided by the school, namely the audit including the auditor’s requested reclassification of \$1.56 million of funds the school had considered restricted cash on its books instead of as restricted cash on the Doral Academy of Northern Nevada Foundation’s³ books.

³ According to Candid GuideStar nonprofit research, “Doral Academy of Northern Nevada Foundation's specific purpose is to provide funding exclusively to Doral Academy of Northern Nevada campuses and its governing board in support of

With this information, staff's review noted that if the reclassified funds had stayed on the school's books then the school would have received a Does Not Meet Standards rating instead of a Falls Far Below Standards rating. Specifically, if the \$1.56 million had remained on the school's books instead of being reclassified the multi-year cash flow would have been positive. This does not mean staff disagree with the auditors or agree with the school. Rather, staff acknowledge that for the Cash Flow measure to be meaningful, it required a consistent treatment from one year to the next. Given that a significant portion of the decline in cash balance was due to an accounting change and not an operating change, and because the school still has access to the funds SPCSA staff believe it is appropriate to adjust the Cash Flow Rating for FY22 to "Does Not Meet Standards," as shown above.

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

- Inconsistent annual financial statements with inaccuracies in net position and fund balance classification, other financing sources, failure to address new GASB Statements;
- Lack of secondary approval for payables;
- Extensive lack of or noncompliance with internal controls resulting in errors and inconsistencies;
- Insufficient supporting documentation for revenue earned beyond bank deposits;
- Failure to recognize deferred inflows of resources;
- Understated current year pension expense and deferred outflows of resources;
- Lack of evaluation for changes in liability and manual reconciliation for compensated absences;
- Errors in financial statements due to unexamined accounts payable and incorrect expense recognition;
- Failure to separately account for items as required by federal regulation;
- Commingling of funds including restricted funds; and
- Failure to include the Foundation as a component unit and inaccurately reporting Foundation activity in the School's General Fund and Governmental Activities.

Because the final FY22 financial audit for DANN 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. DANN will be asked to provide a status update on resolving these matters as part of quarterly financial statements submitted to the SPCSA.

programs and other educational pursuits which have not previously been funded or which can no longer be funded through the regular school budget.”

Appendix A: Financial Performance Framework: DANN

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