STATE OF NEVADA

BRIAN SANDOVAL
Governor

PATRICK GAVIN
Executive Director

STATE PUBLIC CHARTER SCHOOL AUTHORITY

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Via Electronic Mail and Epicenter

July 14, 2017

Cody Noble
Somerset Academy of Las Vegas
50 North Stephanie Dr.
Henderson NV 89074

Dear Mr. Noble,

Pursuant to NRS 388A.351(2) and NAC 386.410 an annual "Performance audit: Report of compliance" must be conducted by a charter school sponsor for each school it sponsors. For schools sponsored by the State Public Charter School Authority (Authority), the performance audit is a perpetual process resulting in a determination of school compliance, financial sustainability, and academic quality derived from three Performance Frameworks: Academic, Financial and Organizational. Your school's revised 2015-2016 Financial Performance Framework Calculation Workbook is attached.

This notification is to inform Somerset Academy of Las Vegas (the school) of revisions made to your school's Financial Framework Profile based on disputes received from you and findings by the Authority. The summary of the disputes and changes are:

- Unrestricted Days of Cash-on-Hand: Per the school, a $1,288,805 Capital Lease amount was incorrectly included in 2016 Annual Expenditures, a $43,228,416 Bond Issuance and $1,552,995 Capital Lease was incorrectly included in 2015 Annual Expenditures. The Authority agreed per GASB's explanation of the presentation of capital leases and other financing sources in The Statement of Revenues, Expenditures, and Changes in Fund Balances found in Touring the Financial Statements, Part III: The Governmental Funds. Expenditures were revised for 2016 and 2015 with results declining from "Meets Standard" to "Does Not Meet Standard" for 2016 and improving from "Does Not Meet Standard" to "Meets Standard" for 2015.
- Enrollment Forecast Accuracy: Per the school, projected enrollment was 3,129 for the 2014 school year. The Authority disagrees per the 1,230 projected enrollment figure taken from the 2014 Final Budget submitted in Epicenter on behalf of the school. The results remain as "Meets Standard" for 2014.

- Total Margin: Per the school, a $1,288,805 Capital Lease amount was incorrectly included in 2016 Annual Expenditures, a $43,228,416 Bond Issuance and $1,552,995 Capital Lease was incorrectly included in 2015 Annual Expenditures. The Authority agreed per GASB's explanation of the presentation of capital leases and other financing sources in The Statement of Revenues, Expenditures, and Changes in Fund Balances found in Touring the Financial Statements, Part III: The Governmental Funds. Expenditures were revised for 2016 and 2015 with results improving "Falls Far Below Standard" to "Does Not Meet Standard" for 2016 and improving from "Falls Far Below Standard" to "Meets Standard" for 2015.

- Debt Service Coverage Ratio: Per the school, a $1,288,805 Capital Lease amount was incorrectly included in the 2016 Net Income calculation, a $43,228,416 Bond Issuance and $1,552,995 Capital Lease was incorrectly included in the 2015 Net Income calculation and the incorrect Interest Expense was used for 2016. The Authority agreed per GASB's explanation of the presentation of capital leases and other financing sources in The Statement of Revenues, Expenditures, and Changes in Fund Balances found in Touring the Financial Statements, Part III: The Governmental Funds. The Authority disagrees with the 2016 Interest Expense dispute. The Interest Expense provided by the school was from the school's general ledger and is not specifically noted in the audited financial statements therefore was omitted from this calculation. Net Income was revised for 2016 and 2015 with results as remaining as "Does Not Meets Standard" for 2016 and improving from "Does Not Meets Standard" to "Meets Standard" for 2015.

Below is a summary comparison of the preliminary and final results based on revisions for 2016.

Somerset Academy of Las Vegas			
Financial Measure	**Preliminary Results**	**Final Results**	**Change**
Current Ratio	Meets Standard	Meets Standard	Equivalent
Days of Cash-on-Hand	Meets Standard	Does Not Meet Standard	**Declined**
Enrollment Forecast Accuracy	Meets Standard	Meets Standard	Equivalent
Debt Default	Meets Standard	Meets Standard	Equivalent
Total Margin	Falls Far Below Standard	Does Not Meet Standard	**Improved**
Debt to Asset Ratio	Does Not Meet Standard	Does Not Meet Standard	Equivalent
Cash Flow	Meets Standard	Meets Standard	Equivalent
Debt Service Current Ratio	Does Not Meet Standard	Does Not Meet Standard	Equivalent

Below is a summary comparison of the preliminary and final results based on revisions for 2015.

Somerset Academy of Las Vegas			
Financial Measure	**Preliminary Results**	**Final Results**	**Change**
Current Ratio	Meets Standard	Meets Standard	Equivalent
Days of Cash-on-Hand	Does Not Meet Standard	Meets Standard	**Improved**
Enrollment Forecast Accuracy	Meets Standard	Meets Standard	Equivalent
Debt Default	Meets Standard	Meets Standard	Equivalent
Total Margin	Falls Far Below Standard	Meets Standard	**Improved**
Debt to Asset Ratio	Does Not Meet Standard	Does Not Meet Standard	Equivalent
Cash Flow	Meets Standard	Meets Standard	Equivalent
Debt Service Current Ratio	Does Not Meet Standard	Meets Standard	**Improved**

For schools in operation during FY16, the Financial Framework Profile has been populated using the respective audited financial statements as outlined by NAC 387.775 Annual audits. The attached file is your schools' revised Financial Framework Profile.

The Authority will issue a Notice of Concern to all charter schools whose financial framework profile results in at least one indication that "Falls Far Below Standard" or at least three indications that are classified as "Does Not Meet Standard." This analysis is based on the eight financial measures detailed in the Financial Performance Framework Workbook, which can be found on the State Public Charter School Authority website.

Sincerely,

Patrick J. Gavin
Executive Director

Enclosure
cc: Reggie Farmer, Administrator
Dr. Francine Mayfield, Administrator
Elaine Kelly, Administrator
Andre Denson, Administrator
Sherry Pendleton, Administrator

Nevada State Public Charter School Authority
Financial Performance Framework Calculations Workbook

School	Somerset Academy of Las Vegas	FY	2016	School Code	18419

*****Standards for a school beyond the first two years of operation are being applied*****

Near Term

Measure 1 - Current Ratio

Purpose: The current ratio depicts the relationship between a school's current assets and current liabilities. In addition, the current ratio is a financial ratio that measures whether or not a school has enough resources to pay its debts over the next 12 months. It compares a school's current assets to its current liabilities.

Data Source: Statement of Net Position

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}} = \frac{\$18{,}817{,}850.00}{\$4{,}552{,}047.00} = 4.13$$

One-Year Trend = 2016 Current Ratio -2015 Current Ratio = 4.13 - 5.50 = -1.36

Total Current Assets	$ 18,817,850.00	X	**Meets Standard:**	**Is 1.1 or greater**
Total Current Liabilities	$ 4,552,047.00		Meets Standard:	Between 1.0 and 1.1 and one-year trend is positive
Current Ratio	**4.13**		Does Not Meet Standard:	Between 0.9 and .99
One-Year Trend	**-1.36**		Does Not Meet Standard:	Between 1.0 and 1.1 and one-year trend is negative
			Falls Far Below Standard:	Less Than 0.9

Measure 2 - Unrestricted Days of Cash-on-Hand

Purpose: The unrestricted days cash-on-hand indicates how many days a school can pay its operating expenses without an inflow of cash. National standards state 60-120 cash on-hand is considered a model practice.

Data Source: Statement of Net Position; Statement of Revenues, Expenditures and Changes in Fund Balance; Notes to the Financial Statements

$$\text{Average Daily Expenses} = \frac{\text{Annual Expense - Annual Depreciation}}{\text{365 Days}} = \frac{\$40{,}838{,}029.00 - \$1{,}924{,}186.00}{365} = \$106{,}613.27$$

$$\text{Unrestricted Days of Cash-on-Hand} = \frac{\text{Unrestricted Cash and Equivalents}}{\text{Average Daily Expenses}} = \frac{\$6{,}205{,}237.00}{\$106{,}613.27} = 58.2$$

One-Year Trend = 2016 Cash on Hand -2015 Cash on Hand = 58.2 - 99.3 = -41.1

Annual Expense	$ 40,838,029.00		Meets Standard:	60 days of cash or more
Annual Depreciation	$ 1,924,186.00			
Total	**$ 38,913,843.00**		Meets Standard:	Between 30 and 60 and one-year trend is positive
Days	365		Does Not Meet Standard:	Days of cash between 15 and 29
Unrestricted Cash and Equivalents	$ 6,205,237.00	X	**Does Not Meet Standard:**	**Between 30 and 60 and one-year trend is negative**
Average Daily Expenses	**$ 106,613.27**		Falls Far Below Standard:	Less than 15 days of cash
Days of Cash-On-Hand	**58.2**			
One-Year Trend	**-41.1**			

Measure 3 - Enrollment Forecast Accuracy

Purpose: Enrollment forecast accuracy tells sponsors whether or not the school is meeting its enrollment projections, thereby generating sufficient revenue to fund ongoing operations.

Data Source: Actual Enrollment = certified validation day numbers; Projected Enrollment = charter school board-approved budgeted enrollment

$$\text{2016 Forecast Accuracy} = \frac{\text{Actual Enrollment}}{\text{Projected Enrollment}} = \frac{5778}{5650} = 102.3\%$$

$$\text{2015 Forecast Accuracy} = \frac{\text{Actual Enrollment}}{\text{Projected Enrollment}} = \frac{4523}{4365} = 103.6\%$$

$$\text{2014 Forecast Accuracy} = \frac{\text{Actual Enrollment}}{\text{Projected Enrollment}} = \frac{3016}{1230} = 245.2\%$$

Actual Enrollment	5778	X	**Meets Standard:**	**Enrollment forecast accuracy equals or exceeds 95% in the most recent year and equals or exceeds 95% of each the last three years**
Projected Enrollment	5650			
Current Year Forecast Accuracy	**102.3%**		Does Not Meet Standard:	Enrollment forecast accuracy is between 85% and 94% in the most recent year
Previous Year Forecast Accuracy	**103.6%**			
2014 Forecast Accuracy	**245.2%**		Does Not Meet Standard:	Enrollment forecast accuracy is 95% or greater in the most recent year but does not equal or exceed 95% or greater each of the last three years
			Falls Far Below Standard:	Enrollment forecast accuracy is less than 85% in the most recent year

Measure 4 - Debt Default

Purpose: The debt default indicator addresses whether or not a school is meeting its loan obligations and/or is delinquent with its debt service payments. Notes from the audited financial statements are used as the source of data. ***In most cases this will not be applicable for charter schools that do not have outstanding loan.***

Data Source: Notes to the Financial Statements

Sponsors may consider a school in default only when the charter school is not making payments on its debt, or when it is out of compliance with other requirements in its debt covenants.

Does the school have a loan?	Yes	X	**Meets Standard:**	**School is not in default of loan covenant(s) and is not delinquent with debt service payments**
Is the school in default of loan covenants?	**No**			
			Falls Far Below Standard:	School is in default of loan covenant(s) and is not delinquent with debt service payments

Nevada State Public Charter School Authority					
Financial Performance Framework Calculations Workbook					
School	**Somerset Academy of Las Vegas**	**FY**	**2016**	**School Code**	**18419**

*****Standards for a school beyond the first two years of operation are being applied*****

Sustainability

Measure 1 - Total Margin

Purpose: Total margin measures the deficit or surplus a school yields out of its total revenues, which indicates whether or not the school is operating within its available resources. The measurement looks at the most recent 3 years.

Data Source: Statement of Revenues, Expenditures and Changes in Fund Balance

$$\text{2016 Total Margin} = \frac{\text{Total Expenditures - Total Revenues}}{\text{Total Revenues}} = \frac{\$40{,}838{,}029.00 - \$39{,}665{,}718.00}{\$39{,}665{,}718.00} = -3.0\%$$

$$\text{2015 Total Margin} = \frac{\text{Total Expenditures - Total Revenues}}{\text{Total Revenues}} = \frac{\$15{,}506{,}389.00 - \$31{,}560{,}824.00}{\$31{,}560{,}824.00} = 50.9\%$$

$$\text{2014 Total Margin} = \frac{\text{Total Expenditures - Total Revenues}}{\text{Total Revenues}} = \frac{\$18{,}109{,}392.00 - \$19{,}468{,}500.00}{\$19{,}468{,}500.00} = 7.0\%$$

$$\text{Aggregated Total Margin} = \frac{\text{3 Years Total Expenditures - 3 Years Total Revenues}}{\text{3 Years Total Revenues}} = \frac{(\$40{,}838{,}029 + \$15{,}506{,}389 + \$18{,}109{,}392) - (\$39{,}665{,}718 + \$31{,}560{,}824 + \$19{,}468{,}500)}{(\$39{,}665{,}718 + \$31{,}560{,}824 + \$19{,}468{,}500)} = 17.9\%$$

2016 Total Revenue	$ 39,665,718.00	☐	Meets Standard:	Aggregated three-year total margin is positive and the most recent year total margin is positive
2016 Total Expenditures	$ 40,838,029.00			
Net Surplus	**$ (1,172,311.00)**	☐	Meets Standard:	Aggregated three-year total margin is greater than -1.5% but less than zero, the trend is positive for the last two years, and the most recent year total margin is positive
Current Year Total Margin	**-3.0%**			
Previous Year Current Margin	**50.9%**			
2014 Total Margin	**7.0%**	X	**Does Not Meet Standard:**	**Aggregated three-year total margin greater than -1.5%, but the most recent year is negative**
Three-Year Net Surplus	**$ 16,241,232.00**			
Three-Year Revenues	**$ 90,695,042.00**	☐	Falls Far Below Standard:	Aggregated three-year total margin is less than -1.5%
Aggregated Total Margin	**17.9%**			

Measure 2 - Debt to Asset Ratio

Purpose: The debt to asset ratio measures the amount of debt a school owes versus the assets they own; in other words, it measures the extent to which the school relies on borrowed funds to finance its operations. A debt to asset ratio greater than 1.0 is a generally accepted indicator of potential long-term financial issues, as the organization owes more than it owns, reflecting a risky financial position. A ratio less than 0.9 indicates a financially healthy balance sheet, both in the assets and liabilities, and the implied balance in the equity account.

Data Source: Statement of Net Position

$$\text{Debt to Asset Ratio} = \frac{\text{Total Liabilities*}}{\text{Total Assets}} = \frac{\$48{,}598{,}873.00}{\$53{,}646{,}665.00} = 0.91$$

* PERS pension liability is excluded from Total Liabilities

Total Assets	53,646,665	☐	Meets Standard:	Is less than 0.9
Total Liabilities	48,598,873	X	**Does Not Meet Standard:**	**Is between 0.9 and 1.0**
Debt to Asset Ratio	**0.91**	☐	Falls Far Below Standard:	Is greater than 1.0

Measure 3 -Cash Flow

Purpose: The cash flow measure indicates a school's change in cash balance from one period to another. This measure includes restricted and unrestricted funds. The measurement looks at the most recent 3 years.

Data Source: Statement of Net Position

2016 Cash Flow =	2016 Total Cash - 2015 Total Cash	=	$6,205,237.00 - $3,955,036.00	= $2,250,201.00
2015 Cash Flow =	2015 Total Cash - 2014 Total Cash	=	$3,955,036.00 - $1,723,783.00	= $2,231,253.00
2014 Cash Flow =	2014 Total Cash - 2013 Total Cash	=	$1,723,783.00 - $1,209,308.00	= $514,475.00
Multi-Year Cash Flow =	2016 Total Cash - 2014 Total Cash	=	$6,205,237.00 - $1,723,783.00	= $4,481,454.00

2016 Cash	$ 6,205,237.00	X	**Meets Standard:**	**Multi-year cumulative is positive and cash flow is positive each year**
2015 Cash	$ 3,955,036.00			
2014 Cash	$ 1,723,783.00	☐	Meets Standard:	Multi-year cumulative is positive, cash flow is positive in two of the three years, and cash flow in the most recent year is positive
Current Year Cash Flow	**$ 2,250,201.00**			
Previous Year Cash Flow	**$ 2,231,253.00**	☐	Does Not Meet Standard:	Multi-year cumulative cash flow is positive, but the current year trend is negative
2014 Cash Flow	**$ 514,475.00**			
Multi-Year Cash Flow	**$ 4,481,454.00**	☐	Falls Far Below Standard:	Multi-year cumulative cash flow is negative

Nevada State Public Charter School Authority
Financial Performance Framework Calculations Workbook

School	Somerset Academy of Las Vegas	FY	2016	School Code	18419

Standards for a school beyond the first two years of operation are being applied

Measure 4 -Debt Service Coverage Ratio

Purpose: The debt service coverage ratio indicates a school's ability to cover its debt obligations in the current year. In most cases this will not be applicable for charter schools that do not have an outstanding loan. This ratio measures whether or not a school can pay the principal and interest due on its debt based on the current year's net income. Depreciation expense is added back to the net income because it is a non-cash transaction and does not actually cost the school money. The interest expense is added back to the net income because it is one of the expenses an entity is trying to pay, which is why it is included in the denominator.

Data Source: Statement of Revenues, Expenditures and Changes in Fund Balance; Notes to the Financial Statements

$$\text{Debt Service Coverage Ratio} = \frac{\text{Net Income + Depreciation Expense + Interest Expense}}{\text{Annual Principal + Interest Payments}} = \frac{-\$1,172,311.00 + \$1,924,186.00 + \$0.00}{\$1,093,469.00 + \$0.00} = 0.69$$

Net Income	$	(1,172,311.00)		Meets Standard:	Is equal to or exceeds 1.10
Depreciation Expense	$	1,924,186.00	X	**Does Not Meet Standard:**	**Less than 1.10**
Interest Expense	$	-			
Total	**$**	**751,875.00**			
Annual Principal	$	1,093,469.00			
Interest Payments	$	-			
Total	**$**	**1,093,469.00**			
Debt Service Current Ratio		**0.69**			

Somerset Academy of Las Vegas **School Code: 18419**

Scoresheet Factors	2016 Audited F/S 6/30/2016	FY15-FY16 Change	2015 Audited F/S 6/30/2015	FY14-FY15 Change	2014 Audited F/S 6/30/2014	FY13-FY14 Change	2013 Audited F/S 6/30/2013	3-Year Cumulative
Cash	6,205,237	57%	3,955,036	129%	1,723,783	43%	1,209,308	
Total Current Assets	18,817,850	-3%	19,406,000	397%	3,902,921	74%	2,238,199	
Non Current Assets	34,828,815	7%	32,421,280	18535%	173,984	N/A	-	
Total Assets	53,646,665	4%	51,827,280	1171%	4,076,905	82%	2,238,199	
Current Liabilities	4,552,047	29%	3,529,571	184%	1,241,017	41%	878,427	
Non Current Liabilities	44,046,826	-1%	44,433,274	42234%	104,959	N/A	-	
Total Liabilities	48,598,873	1%	47,962,845	3463%	1,345,976	53%	878,427	
Net Assets	5,047,792	31%	3,864,435	42%	2,730,929	101%	1,359,772	
Revenues	39,665,718	26%	31,560,824	62%	19,468,500	69%	11,486,000	90,695,042
Expenditures	40,838,029	163%	15,506,389	-14%	18,109,392	71%	10,585,090	74,453,810
Change in Net Assets	(1,172,311)	-107%	16,054,435	1081%	1,359,108	51%	900,910	16,241,232
Depreciation Expense	1,924,186	98%	971,741	16053%	6,016	N/A	-	
Annual Principal	1,093,469	28%	851,041	4611%	18,065	N/A	-	
Interest Expense	-	-100%	483,045	218472%	221	N/A	-	
Outstanding Loan?	Yes		Yes		Yes		Yes	
Debt Default?	No		No		No		No	
Actual Enrollment	5,778	28%	4,523	50%	3,016	69%	1,784	
Projected Enrollment	5,650	29%	4,365	255%	1,230	-25%	1,637	
Year of Operation	5		4		3		2	