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ACTION MEMORANDUM

TO: SPCSA Board
FROM: Mike Dang, Manager of Organizational and Financial Performance
Mark Modrein, Director of Authorizing
SUBJECT: Agenda Item #9: Recommendations Under the SPCSA Financial Performance Framework for FY22: Democracy Prep at the Agassi Campus & Nevada Preparatory
DATE: May 19, 2023

Overview

At the Authority’s March 3, 2023, Board Meeting, SPCSA staff presented analysis and recommendations for 29 schools¹ regarding their Fiscal Year Ending June 30, 2022 (FY 22) independent financial audits. This memorandum and the recommendations herein pertain to two (2) schools, Democracy Prep at the Agassi Campus (Democracy Prep) and Nevada Preparatory Charter School (Nevada Prep). While Democracy Prep’s audit was received in time for SPCSA staff to conduct analysis prior to the March 3, 2023, Board Meeting, following conversations with Democracy Prep staff, SPCSA staff requested that the Authority not act on ratings or recommendations regarding Democracy Prep until additional information could be reviewed. Regarding Nevada Prep, SPCSA staff received the school’s audit on March 13, 2023.

At this time, the SPCSA has not received final audits for the following seven schools: CIVICA Career & Collegiate Academy of Nevada, Doral Academy, Doral Academy of Northern Nevada,

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.

Explore Academy, Mater 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 the majority of 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 schools’ 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 Democracy Prep and Nevada Prep, 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. Regarding the two audits addressed in this memorandum, this important consideration applied. 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 close of the fiscal year, and to appropriately account for this under the framework and to not penalize schools for issues beyond their control, this amount was incorporated into all impacted calculations within the framework.

Proposed motions can be found below, and details regarding the financial performance each of school is provided within the remainder of this memorandum.

Proposed Motions

1. Adopt the Financial Performance Framework results presented for the schools listed in Appendix A, Democracy Prep and Nevada Prep, 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 Democracy Prep and Nevada Prep and require each to develop and submit a financial improvement plan, and require each to provide quarterly updates regarding the implementation of the improvement plan:

This remainder of this memorandum presents the following items.

1) **Schools Recommended for Notices of Concern**

Appendix A: Financial Performance Framework Results: Democracy Prep and Nevada Prep

Appendix B: Previously Approved Financial Performance Framework Results

1) Schools Recommended for Notices of Concern

Democracy Prep

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

Democracy Prep’s audit shows intercompany activity³ such that it had a net accounts receivable balance due to the school of about \$477,000 from its Charter Management Organization, DPN, and from its parent DPPS. SPCSA staff finds sufficient evidence to treat the net receivables as cash since the assets belong to Democracy Prep. Nevertheless, the school still earns four three Meets Standards ratings and four Does Not Meet Standard (DNMS) ratings as shown above.

Democracy Prep’s Unrestricted Days Cash On Hand (UDCOH) showed the school ended the fiscal year of June 30, 2022 with only 12.5 days of cash on hand. In other words, the school had less than two weeks of cash on hand to cover its average daily expenses. The school’s estimated average daily expenses rose from \$30k per day to \$41k per day, a 37% increase. Primarily, the school’s Instructional and Support Services and related expenses rose from \$11.1m to \$15.3m. Essentially, the school increased this spending from \$10k per pupil to \$13k per pupil. In this case the school went from a FY 21 surplus of \$937k to a FY 22 deficit of \$1.7 million. Even with the additional cash adjustment mentioned above which SPCSA staff made, the school’s UDCOH would still only be 24 days, less than a month of available cash with which to pay expenses until the next PCFP payment.

According to the approved Financial Performance Framework technical guide and nationally accepted practices for authorizing, schools operating for three or more years should maintain the equivalent of at least 60 days of UDCOH in order to meet performance standards. Democracy Prep could also Meet Standards with a positive, one-year trend along with UDCOH greater than or equal to 30 days. Democracy Prep would have needed approximately \$245,000 of additional cash (on top of the previously referenced \$477,000 in accounts receivable) to meet this 30-day UDCOH threshold. To be clear, it would take over \$700,000 more cash to have over 30 days of cash on hand. Even then, the school falls well short of the 60-day UDCOH standard which is the general expectation for schools that have been operating for at least three years. It is noteworthy that the school’s expenses increased by approximately 39% compared to FY21. As such, SPCSA staff recommends that the Authority issue a Notice of Concern given that the school earned at least three Does Not Meet Standard ratings.

In conclusion, SPCSA staff recommends that the Authority issue Democracy Prep 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.²

³ This is uncommon and raises concerns about financial management and oversight. SPCSA staff expects to address this with Democracy Prep prior to the start of FY24 to avoid similar circumstances in future years.

Nevada Prep

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

Nevada Prep’s ratings consist of three Meets Standards ratings (MS), two Does Not Meet Standards ratings (DNMS) and two Falls Far Below Standards ratings (FFBS). According to Nevada Pre, one of the major factors impacting the school’s financial situation was under enrollment. The school’s actual enrollment during the 2021-22 school year was noticeably less than their budgeted and planned enrollment.

The schools Current Ratio is strong at 3.34, significantly surpassing the minimum level of 1.1. However, the school’s Unrestricted Days Cash on Hand declined from 44 days, FY 21, to 30 days, FY 22, against a standard of 60 days. This is based on a nearly 60% increase in expenses while enrollment fell by 13%. Capital Lease Expense rose to \$249,000 from \$162,000 and school leadership said lease expenses are expected to continue to rise based on the lease structure.

The school’s expenses of \$3,648,000 exceeded revenues for a deficit of over \$930,000, resulting in a Falls Far Below Standards rating. The school’s Debt to Asset Ratio exceeded 100% resulting in another Falls Far Below Standards rating. Principal payment requirements more than tripled to \$97,000 and Interest Expense rose from just under \$1000 to over \$715,000.

While Nevada Prep did not meet performance expectations against the financial framework, the school did benefit from leasing out some available space within the building to pilotED – Cactus Park, another SPCSA sponsored school. At this time, Nevada Prep is planning to sublease space for the 2023 – 24 school year to Rooted – Clark County.

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

SPCSA staff recommends the Authority issue Nevada Prep 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: Democracy Prep and Nevada Prep

	School	Current Ratio	UDCOH	Enrollment Variance	Debt Default	Total Margin	Debt to Asset Ratio	Cash Flow Measures	Debt Coverage Service Ratio
1	Democracy Prep	DNMS	DNMS	NR	MS	DNMS	MS	MS	DNMS
2	Nevada Prep	MS	DNMS	NR	MS	FFBS	FFBS	MS	DNMS

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 Discovery Charter School	FFBS	DNMS	NR	MS	MS	MS	MS	MS
6 Elko Institute for Academic Achievement	MS	MS	NR	MS	MS	MS	MS	MS
7 Equipo Academy	MS	MS	NR	MS	DNMS	MS	DNMS	MS
8 Founders Academy	MS	MS	NR	MS	MS	MS	DNMS	MS
9 Freedom Classical Academy	MS	MS	NR	MS	MS	MS	MS	MS
10 Futuro Academy	MS	MS	NR	MS	MS	MS	MS	MS
11 GEMS (fka GALS)	MS	MS	NR	MS	DNMS	DNMS	MS	DNMS
12 Honors Academy of Literature	MS	MS	NR	MS	DNMS	MS	FFBS	DNMS
13 Imagine School at Mountain View	MS	MS	NR	MS	MS	MS	MS	MS
14 Leadership Academy of Nevada	MS	MS	NR	MS	MS	MS	DNMS	MS
15 Learning Bridge Charter School	MS	MS	NR	MS	MS	MS	MS	MS
16 Legacy Traditional School	MS	MS	NR	MS	MS	FFBS	MS	DNMS
17 Mater Academy of Nevada	MS	MS	NR	MS	MS	DNMS	MS	MS
18 Nevada Connections Academy	MS	MS	NR	MS	DNMS	MS	FFBS	MS
19 Nevada Rise	MS	MS	NR	MS	MS	MS	MS	MS
20 Nevada State High School	MS	MS	NR	MS	MS	MS	MS	MS
21 Nevada State High School - Meadowood	MS	MS	NR	MS	MS	MS	MS	MS
22 Nevada Virtual Academy	MS	MS	NR	MS	DNMS	MS	MS	MS
23 Oasis Academy	MS	MS	NR	MS	MS	MS	MS	MS
24 Quest Academy	MS	MS	NR	MS	MS	MS	MS	MS
25 Signature Preparatory	MS	MS	NR	MS	DNMS	DNMS	MS	DNMS
26 Silver Sands Montessori School	MS	MS	NR	MS	MS	MS	MS	MS
27 Somerset Academy of Las Vegas	MS	MS	NR	MS	MS	MS	MS	MS
28 Sports Leadership and Management Academy	MS	MS	NR	MS	MS	DNMS	MS	MS
29 TEACH Academy	MS	FFBS	NR	MS	DNMS	FFBS	NR	DNMS