Joe Lombardo
Governor

STATE OF NEVADA

Rebecca Feiden
Executive Director

STATE PUBLIC CHARTER SCHOOL AUTHORITY

1749 North Stewart Street Suite 40
Carson City, Nevada 89706-2543
(775) 687-9174 · Fax (775) 687-9113

2080 East Flamingo Road Suite 230
Las Vegas, Nevada 89119-5164
(702) 486-8895 · Fax (702) 486-5543

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
DATE:	March 3, 2023

Background

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[1]	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, past performance, including any past or current notices is considered when determining whether to renew a charter contract (NRS 388A.285).

Analysis

SPCSA staff have reviewed all Fiscal Year Ending June 30, 2022 (FY 22) independent financial audits received through the NAC 387.775 deadline of December 1, plus any audits after this deadline but before January 31, 2023. All schools submitting audits by this date were provided preliminary ratings against the SPCSA Financial Performance Framework standards. SPCSA staff provided schools a window within which schools could review, confirm and/or comment on their preliminary ratings rated performance against the established standards as adopted by the Authority. This memorandum and the recommendations herein pertain to 30 schools. At this time, the SPCSA has not received audits for the following eight schools: CIVICA Career & Collegiate Academy of Nevada, Doral Academy, Doral Academy of Northern Nevada, Explore Academy, Mater Academy of Northern Nevada, Nevada Prep, Pinecrest Academy of Nevada, and Pinecrest Academy of Northern Nevada. Results and recommendations regarding these outstanding audits will be provided at a future meeting.

As part of SPCSA staff's review of independent financial audits, SPCSA staff took into consideration a few unique circumstances. First, as has been discussed previously at SPCSA Board Meetings, the SPCSA experienced some 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

[1] 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.

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.

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. Three schools that would otherwise have received ratings of Does Not Meet Standard or Falls Far Below Standard provided evidence of large capital investments that impacted one or both of these measures. As a result, SPCSA staff has adjusted the ratings for these schools. Additional information regarding the ratings for these schools and the circumstances of the capital investment can be found in Appendix B.

In addition, as the Authority is aware, participation in the Public Employee Retirement System (PERS) is required of all sponsored schools. SPCSA-sponsored schools, as PERS participants are liable for certain periodic PERS related contributions, and these expenses are reflected in the Revenue and Expense related calculations in the SPCSA Financial Performance Ratings model. Additionally, the Net Pension Liability represents the difference between the total pension liability and the assets set aside to pay current employees, retirees and beneficiaries. This is incorporated into the Debt-to Asset Ratio, Total Margin and Debt Service Coverage Ratio indicators for each school.

While the Net Pension Liability is currently included in the adopted Financial Performance Framework rating calculations, SPCSA staff's analysis raise some questions about whether PERS related adjustments impacting revenues and expenditures are clarifying or distorting the financial ratings of sponsored schools. More specifically, SPCSA staff reviewed the fiscal impacts from certain Public Employee Retirement System (PERS) accounting adjustments to the Debt-to-Asset Ratio, Total Margin and Debt Service Coverage Ratio for each school.

While SPCSA staff maintains considerable trust in the ability of the Financial Performance Framework to provide an accurate portrayal of a school's overall financial health, the inclusion of the Net Pension Liability in the framework calculations appears to have at least partially distorted the financial picture for several schools. In these circumstances SPCSA staff is not recommending the Authority take any action. Additionally, SPCSA staff intends to examine this issue closely and bring recommendations to the Authority before the beginning of FY24 regarding how to handle Net Pension Liability adjustments within the Financial Performance Framework in the future. Schools impacted by this are addressed within the "Schools with Unique Circumstances" section of the memo.

Finally, several schools 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. SPCSA staff will monitor these schools as they work to resolve these deficiencies or findings.

Overall, results under the SPCSA Financial Performance Framework were positive with the majority of schools demonstrating strong short-term and long-term financial health. A complete listing of these results, which SPCSA staff recommends that the Authority adopt can be found in Appendix A. There are, however, a handful of schools for which the Financial Performance Framework raises concerns regarding the school's financial health. As a result, SPCSA staff is recommending that the Authority issues Notices of Concern to three schools, maintain an existing

Notice of Concern for one school, and require a revised Targeted Remediation Plan for one school. Finally, the SPCSA staff is recommending that the Authority rescind a prior Notice of Concern for one school that has made significant improvement on the Financial Performance Framework. Proposed motions can be found below, and details regarding the financial performance each of school recommended for action, as well as other schools with unique circumstances that are not recommended for action are provided within the remainder of this memorandum.

Proposed Motions

1. Adopt the Financial Performance Framework results presented for the schools listed in Appendix A for fiscal year 2022 for all indicators except the Enrollment Variance measure, which was not rated.

2. Rescind the Notice of Concern for Quest Preparatory Academy.

3. Maintain the Notice of Concern for Signatory Preparatory, as the school works to resolve remaining financial concerns.

4. Issue a Notice of Concern under the Financial Performance Framework to the following schools, require each to develop and submit a financial improvement plan, and require each to provide quarterly updates regarding the implementation of the improvement plan:

    - Democracy Prep

    - Girls Empowerment Middle School (GEMS)

    - TEACH Las Vegas

5. Require Legacy Traditional Schools to develop and submit an updated Targeted Remediation Plan for the fiscal years ending 2023 and 2024.

This remainder of this memorandum is broken down into multiple sections.

1) **<u>Schools Currently Operating Under a Notice:</u>** Two SPCSA schools – Quest Preparatory Academy and Signature Preparatory – are operating under Notices of Concern.

2) **<u>Schools Recommended for Notices of Concern or Revised Targeted Remediation Plans</u>**

3) **<u>Schools with Unique Circumstances:</u>** A small number of schools earned a Does Not Meet Standard rating in three or more indicators, and/or earned one or more Falls Far Below Standard ratings under any of the seven measured financial rating indicators for FY22. However, due to unique circumstances, SPCSA staff is not recommending any action.

<u>Appendix A: Financial Performance Framework Results</u>

<u>Appendix B: Schools Requiring Adjustments:</u> SPCSA staff has made adjustments to ratings for some schools for reasons enumerated in the Financial Performance Technical guide (such as one-time capital expenditures).

<u>Appendix C: Schools with Significant Deficiencies in their Audit:</u> The financial audit for four SPCSA schools included significant deficiencies as determined by their auditor.

1) Schools Currently Operating Under a Notice

Quest Preparatory Academy

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

During FY22, Quest Preparatory Academy has seen improvements across all areas of financial performance, resulting in the school achieving Meets Standards ratings in all seven indicators. Quest Preparatory Academy's auditor noted a minor concern regarding the recognition of grant revenues. Despite this concern, the auditor did not believe that this materially impacted the school's financial reporting.

Given Quest Preparatory Academy's improved performance compared to prior years, SPCSA staff recommends that the Authority rescind Quest Preparatory Academy's Notice of Concern.

Signature Preparatory

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

Signature Preparatory Met Standards in four of seven measures for FY22. The three measures that the school Did Not Meet Standards on were Total Margin, Debt to Asset Ratio, and Debt Service Coverage Ratio.

The school is currently operating under a Notice of Concern due to not meeting performance expectations in FY21, during which time Signature Preparatory Did Not Meet Standards on Current Ratio, Unrestricted Days Cash on Hand, Debt to Asset Ratio, and Cash Flow. During FY22 the school's current ratio improved from 0.91 to 2.38 compared to FY21, a significant increase that deserves recognition. Unrestricted Days Cash on Hand improved from 24.9 days to 47.2 days, a trend that SPCSA staff hopes that the school is able to maintain. The Debt to Asset Ratio also improved from 99.6% to 98.8%. Finally, the Cash Flow measure improved significantly going from a negative cash flow of approximately $270,000 to a positive cash flow of over $2,000,000.

Unfortunately, two measures that previously had Met Standards have seen declines from FY21 to FY22. Previously, Signature Preparatory had a positive one year and aggregated three-year total margin. During the past fiscal year, the school had a negative total margin for the year, though was able to maintain a positive aggregated three-year total margin. As a consequence of the negative total margin, the Debt Service Coverage Ratio also saw a significant decline in FY22.

The improvements that Signature Preparatory have achieved should be commended and the school should be encouraged to continue to strive for improved financial performance. However, the school still has three indicators not meeting performance standards.

Given these improvements, staff recommends that the Authority accept the FY22 results under the Financial Performance Framework for Signature Preparatory but maintain the Notice of Concern as the school is not yet meeting standards under at least five of the measured indicators.

2) Schools Recommended for Notices of Concern or Revised Targeted Remediation Plans

Democracy Prep

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

Democracy Prep's (DPAC) ratings include four Does Not Meet Standards ratings and one Falls Far Below Standard rating. DPAC'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.

DPAC's audit shows intercompany activity[2] such that it had a net accounts receivable balance due to the school of about $477,000 from its Charter Management Organization. If these funds had been paid to the school prior to the end of the fiscal year and been reported as cash instead of accounts receivable, the school would have four Meets Standards ratings, but would still have three measures rated as Does Not Meet Standard including the Unrestricted Days Cash on Hand (UDCOH), Total Margin, and Debt Coverage Ratio. Even with this additional cash, the school's UDCOH would only be 24 days. 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 unrestricted cash in order to meet performance standards. DPAC could also Meet Standards with a positive, one-year trend along with UDCOH greater than or equal to 30 days. DPAC 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 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.

The audit also mentions a Title 1 Maintenance of Effort (MOE) finding, including questioned costs for federal awards. MOE conditions require an entity to expend a minimum amount of its funds towards an activity and not simply replace its funding investment with, say, federal grant funding. Entities are to "supplement, not supplant" their required minimum spending. The audit states that corrective action was taken by the school. SPCSA Staff will conduct ongoing monitoring of this issue under the Organizational Performance Framework regarding the school's progress in resolving the deficiencies or findings. The schools will be asked to provide a status update on resolving these matters as part of quarterly financial statements submitted to the SPCSA.

In conclusion, SPCSA staff recommends that the Authority issue DPAC a Notice of Concern, require the school develop and submit a financial improvement plan, and require the school to provide a status

---

[2] 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.

update on implementing the improvement plan when it submits its quarterly financial statements to the SPCSA.

Girls Empowerment Middle School (GEMS)

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

Girls Empowerment Middle School (GEMS) completed its second year of operations on June 30, 2022. The school earned three DNMS rating under the Financial Performance Framework. The school's Net Surplus (Deficit) was a deficit of $343,708 before PERS adjustments and $307,055 after adjustments. Consequently, the adjustments had little, if any, effect on the ratings. As with the other schools noted in this memo, SPCSA staff inquired with questions and requested additional information and clarification. GEMS noted that the school has prioritized improving its enrollment which rose 7% to 103 for FY22 from 96 for FY21. Staff believe that, assuming good money management, and with enrollment gains the school should be able to improve its standing under this framework in future years. SPCSA staff finds that a primary driver in the school's financial performance framework ratings has been the school's enrollment levels the past several years. Simply, the school has not met enrollment projections resulting in a loss of anticipated revenues over consecutive fiscal years. While SPCSA staff agrees that improved enrollment should be a top priority of the school, should this not occur, the school is likely to see a deteriorating financial outlook. For these reasons, SPCSA staff recommends that the Authority issue a Notice of Concern.

Additionally, the GEMS audit noted two areas of findings:

1. The first area dealt with improper access. This included that the executive director could both make and edit transactions within the accounting system while having the authorization to issue payments. Other personnel had access to the school's safe which contained cash. This accounting process system and finance handling structure created a higher risk of misappropriation of funds. If such a misappropriation were to be realized, the audit said there was a chance that it would not be detected within a timely period.
2. The second matter had to do with an improper cutoff fiscal handling system. This primarily dealt with various items not being properly recorded in their appropriate periods. It also included another improperly recorded transaction in that state receivables were recorded as negative balances in a deferred revenues account rather than as an offsetting receivable.

The school responded that it is rewriting their entire fiscal policy and updating their internal control procedures to ensure these matters are resolved. SPCSA Staff will conduct ongoing monitoring of these issues under the Organizational Performance Framework regarding the school's progress in resolving the deficiencies or findings. The schools will be asked to provide a status update on resolving these matters as part of quarterly financial statements submitted to the SPCSA.

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

TEACH Las Vegas

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

The FY22 results for TEACH Las Vegas show the school met standards on only two measures, Current Ratio and Debt Default. The school Did Not Meet Standards for the Total Margin and the Debt Coverage Ratio. It should be noted that the school opened for the 2021 – 2022 school year, and that while the school earned a Does Not Meet Standards rating, the Total Margin measure requires at least two years of negative performance for a school to be eligible to be rated Falls Far Below Standards on that measure. The school Fell Far Below Standards on the Unrestricted Days Cash On Hand and Debt to Asset Ratio. Cash flow was not rated because the performance framework requires a minimum of two years of data to determine a rating.

After reviewing available data, requesting clarification as well as speaking with the school, SPCSA staff believes that the current financial performance of TEACH can be traced back to their difficulty in meeting enrollment goals. The school had originally been approved for year one enrollment of 325 students. During the July 30, 2021, SPCSA Board Meeting, the SPCSA Board approved a request from TEACH Academy to reduce their enrollment cap to only 150 students, after the TEACH Las Vegas Board was able to demonstrate that the school would be financially viable at 150 students. Ultimately the school only achieved an enrollment of 112 students (or 75% of its reduced enrollment cap).

If the school had been able to enroll the full 150 students, and assuming the base per pupil funding amount of approximately $7,200, the school would have likely received an additional $250-$300 thousand in revenue. Assuming no additional expenses would have been incurred, this still would not have been enough for the school to Meet Standards on Total Margin, but it would have brought the school very close to Meeting Standards, such that with additional federal funds or local fundraising, the school could have had a positive Total Margin for the year. It is even harder to predict what would have happened with the cash balance, but it would have only taken an additional $24,000 in cash to Meet Standards on Unrestricted Days Cash on Hand.

TEACH has made impressive gains in enrollment from the 2021 – 22 school year to the current academic year as the school had 332 students enrolled as of the most recent Validation Day (October 1, 2022). However, quarterly reports from this year are still showing deficits continuing from the prior year, and TEACH Las Vegas only shows approximately 11.1 days of cash available to cover their average daily expenses of $6,140. It is increasingly important that the school meet enrollment goals in upcoming years so as to improve its financial standing.

As a result of the above, SPCSA staff recommends that a Notice of Concern be issued to TEACH Las Vegas.

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

Legacy Traditional Schools

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

Legacy Traditional School Met Standards on five of seven measures for FY22. Legacy Traditional Schools earned a Does Not Meet Standards rating for its Debt Service Coverage Ratio, however this ratio improved compared to previous years for Legacy Traditional School. The Debt Service Coverage Ratio for this year was 1.06, just below the standard of 1.1 and, importantly, it is more than double what the school has averaged over its contract (0.47). The school Fell Far Below Standards on the Debt to Asset Ratio measure, however the school had incurred this debt prior to the adoption of the Financial Performance Framework by the Authority for FY20. As a result, Legacy Traditional Schools has been operating under a Targeted Remediation Plan approved by the Authority as a result of the FY20 ratings.

SPCSA staff recommends that the Authority require Legacy Traditional Schools provide an updated Targeted Remediation plan that shows progress to date and how the school will continue to show financial improvement, particularly under the Debt to Asset Ratio and Debt Service Coverage Ratio.

3) Schools with Unique Circumstances:

Discovery Charter School

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

Discovery's ratings include one Falls Far Below Standard rating under its Current Ratio and one Does Not Meet Standard rating under the Unrestricted Days Cash On Hand. Discovery's Current Ratio rating of FFBS is impacted by the school's audit showing $636k in Current Assets—and $9.0m in Current Liabilities. This results in a Current Ratio of 0.07x. The minimum required ratio as 1.1x or greater to achieve a Meets Standards rating. A Meets Standards rating of 1.1x or greater suggests that the school has sufficient current assets, including cash and cash equivalents to pay their current liabilities. A Current Ratio of 0.07x suggests an entity that is seriously short on available funds to pay its current bills.

Mitigating this rating, perhaps, is that almost all of this current liability comes from an obligation Discovery elected to incur to exercise their purchase option to acquire their site.

Discovery exercised this purchase option in July of 2023, into the new fiscal year. SPCSA staff asked Discovery's auditor, Rubin Brown, why they considered or approved the amount of this option, $8,796,354 (97%) of the $9,043,425 (100%) a Current Liability—when the option was not exercised in FY 2022 but in FY 2023. Discovery, according to a letter from Rubin Brown, didn't exercise the option until 14 days into the new fiscal year of 2023, on July 14, 2023. The auditor said they discussed with GASB's technical office the propriety of letting the purchase option amount be presented in FY 2022 instead of FY 2023. The result was, according to the auditor, that GASB agreed with the amount being placed in the prior fiscal year. The auditor also indicated that the school intended to issue bonds to pay off the current liability.

SPCSA staff also spoke with the school's financial advisor who interpreted the above amount to be a long-term liability. Consequently, Discovery submitted their financial statements to their auditor believing their Current Liabilities would have been in line with their Current Assets and not have generated a low rating. In short, the school exercised the option which was contingent upon receiving the financing they were negotiating. Discovery did not receive the financing until FY23, and as a result, did not believe the amount should not have been considered a Current Liability in FY22.

SPCSA staff note from the audit that the school entered into a loan agreement in FY 23, on July 1, for an amount over $24 million. It would appear that the auditors are deeming that the school exercised this in FY 22, however. Additionally, this funding amount would pay off the above amount and provide additional funding for the facility. The school is in process of returning about $12 million of this due to its decision not to expand as it earlier intended. It is noteworthy that the bonds were issued, indicating that the bond issuers considered the school to have sufficient assets to pay off this liability over time.

Staff note that but for the exercise of the option—or if the accounting treatment was presented in FY23 – that this would have resulted in Discovery receiving a Current Ratio of 2.58x, a clear Meets Standards rating well over the 1.1x threshold when the school included the FY23 amount for the purchase option. Staff note that Discovery received a 2.48x rating, FY 2021. Nevertheless, the July 14, 2023 execution of the option was booked for FY22.

Consequently, while SPCSA staff recognize that Discovery's Current Ratio FFBS would warrant a recommendation for a Notice of Concern according to the Financial Performance Framework Technical Guide, these appear to be extraordinary and unique circumstances. For these reasons, SPCSA staff does not recommend that the Authority issue a Notice of Concern.

The audit of Discovery's financial records described a few findings, as follows:

1. The school did not properly record a receivable or its state (DSA/PCFP) payment and a grant receivable.
2. The school also had no procedures implemented to evaluate unrecorded liabilities at each month end for the year ending in June 30th 2021.
3. The school did not record a lease as a capital lease properly when the lease met the criteria of a capital lease.
4. Finally, the school's accounting books were not maintained on the accrual basis as required by the state public charter school Authority (SPCSA).

The school indicates in the audit that it has resolved these matters, or in the case of the capital lease finding that it did not need remediation. SPCSA Staff will conduct ongoing monitoring of these issues under the Organizational Performance Framework regarding the school's progress in resolving the deficiencies or findings. The schools will be asked to provide a status update on resolving these matters as part of quarterly financial statements submitted to the SPCSA.

In conclusion, SPCSA finds that the classification of the school's lease and liabilities according to the audit to be unique and not a signal that the school is under financial distress. Staff recommends that the Authority take no action with regards to Discovery Charter Schools.

Nevada Connections Academy

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

Nevada Connections Academy Met Standards on only five of seven measures. The school Did Not Meet Standards on the Total Margin measure, having a positive aggregated three-year margin, but a negative current year margin. The school Fell Far Below Standards on the Cash Flow measure, with a negative multiyear cash flow and negative one year cash flow. Staff has not been informed of any planned and approved large capital investments to justify the decrease in cash balance. It is noteworthy, however, that Nevada Connections Academy is still adjusting to a significant reduction in approved enrollment as a result of the settlement approved by the Authority on May 5, 2020.

In light of Nevada Connections Academy's recent financial performance, including improved performance under the school's Debt Service Coverage Ratio when compared to FY21, SPCSA staff does not recommend any action by the Authority with regard to Nevada Connections Academy. SPCSA staff will continue to monitor the school's performance on a quarterly basis as the school adjusts to reduced enrollment across the high school grades.

In conclusion, SPCSA staff recommends that the Authority take no action with regards to Nevada Connections Academy.

Alpine Academy

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

Alpine Academy met standards across the board FY 21 for all measures being rated. For FY 22 the school received three Does Not Meet Standards ratings. SPCSA staff requested additional information and clarification regarding the school's Current Ratio, Total Margin and Cash Flow ratings. This information indicates that the school's rating under the Current Ratio was just short of the Meets Standard threshold by approximately $16,000. For a sense of magnitude, the relative size of this increment needed was about 1% of their total revenue base of $1.2 million.

The Total Margin calculation for Alpine would have met standards but for the Net Pension Liability related adjustments made. In other words, before the PERS adjustments, the school's Net Margin was a positive $23,000. That turns to a negative $88,000 after the PERS adjustments. Regarding the Debt Service Coverage Ratio, if the non-cash flow PERS adjustments were not considered, the school would have been about $18,000 short of receiving a Meets Standards in this category. Stated another way, the Debt Service Coverage Ratio would still be rated as Does Not Meet Standard.

Overall, SPCSA staff finds that Alpine came substantially close to meeting standards for the above three ratings. As previously noted in this memo, SPCSA staff would like to continue to analyze the impact of the Net Pension Liability under the current framework calculations. In staff's eyes, it appears to have at least partially distorted the ratings for Alpine Academy as the school would have otherwise met performance expectations for FY22.

In conclusion, SPCSA staff recommend that the Authority take no action with regards to Alpine Academy. While three Does Not Meets Standards ratings would normally trigger a recommendation to issue a Notice of Concern, it is not clear to SPCSA staff that the school is under financial distress when the impact of the Net Pension Liability is set aside.

Honors Academy of Literature

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

The FY22 results for Honors Academy of Literature show two Does Not Meet Standards ratings and one Falls Far Below Standard rating. For its Total Margin results, Honors earned a Does Not Meet Standards rating. The margin results, based on their revenue of $1.8 million fell short by 1.89%, or about $34,000 as they reflected a Net Deficit of $34,000. In other words, if the school had generated $34,000 more from its $1.8 million in revenue, the school would have received a Meets Standard rating for its Total Margin rating. Note, however, that the school's financial Statement of Activities does show that the school generated a Margin of $191,000, far more than the $34,000 deficit shown in the ratings model. This $225,000 swing from a positive margin to a negative, a deficit, comes about after accounting adjustments for Net Pension Liabilities related items.

Regarding its Debt Service Coverage Ratio, the school generated $191,000 (a surplus) in pre PERS related Net Margin. As mentioned above, this turns to a negative $34,000 (a deficit) when the PERS

adjustments are made.

For its Cash Flow rating, Honors received a Falls Far Below Standard rating. This comes after a 37% decline in its ending cash balance on a year over year (YOY) basis. It would have taken $188,000 more in its June 30, 2022 cash account to avoid a YOY cash balance decline, which is the essence of the measure. After inquiring, Honors Academy provided evidence of capital expenditures of approximately $100,000 that occurred during FY22. Additionally, as a result of changes in policies at the Nevada Department of Education, the school was transitioned from quarterly payments from the Distributive School Account (DSA) education funding system in FY21 to monthly Pupil Centered Funding Plan (PCFP) education funding system beginning in FY22. The transition from quarterly to monthly PCFP payments resulted in only 11 PCFP payments being received in FY22, whereas in prior years, the school received the equivalent of 12 monthly payments per year paid out in four quarterly payments. The final payment of FY22 was booked under accounts receivable. When coupled with the capital expenditures, this amount more than offsets the approximately $188,000 needed to Meets Standard under the Cash Flow indicator. This transition from the quarterly to monthly payment scheme created a one-time, unique situation that should not cause an issue in future years.

As previously noted in this memo, SPCSA staff would like to continue to analyze the impact of the Net Pension Liability under the current framework calculations. In staff's eyes, it appears to have at least partially distorted the ratings for Honors Academy of Literature as the school would have otherwise met performance expectations for FY22.

In conclusion, SPCSA staff recommends that the Authority take no action with regards to Honors Academy of Literature. While two Does Not Meets Standards ratings and one Falls Far Below Standard rating would normally trigger a recommendation to issue a Notice of Concern, it is not clear to SPCSA staff that the school is under financial distress when the impact of the Net Pension Liability is set aside. Additionally, SPCSA staff concludes that had the school not expended funds for capital expenditures, nor had there been a transition from quarterly DSA payments to monthly PCFP payments, the school would likely have met the performance standard under the Cash Flow indicator.

Appendix A: Financial Performance Framework Ratings

	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	FFBS	NR	MS	DNMS	MS	DNMS	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 Rise	MS	MS	NR	MS	MS	MS	MS	MS
21	Nevada State High School	MS	MS	NR	MS	MS	MS	MS	MS
22	Nevada State High School - Meadowood	MS	MS	NR	MS	MS	MS	MS	MS
23	Nevada Virtual Academy	MS	MS	NR	MS	DNMS	MS	MS	MS
24	Oasis Academy	MS	MS	NR	MS	MS	MS	MS	MS
25	Quest Academy	MS	MS	NR	MS	MS	MS	MS	MS
26	Signature Preparatory	MS	MS	NR	MS	DNMS	DNMS	MS	DNMS
27	Silver Sands Montessori School	MS	MS	NR	MS	MS	MS	MS	MS
28	Somerset Academy of Las Vegas	MS	MS	NR	MS	MS	MS	MS	MS
29	Sports Leadership and Management Academy	MS	MS	NR	MS	MS	DNMS	MS	MS
30	TEACH Academy	MS	FFBS	NR	MS	DNMS	FFBS	NR	DNMS

Appendix B: Schools Requiring Adjustments

Beacon Academy of Nevada

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

The FY22 ratings for Beacon Academy initially generated a Cash Flow rating of Falls Far Below Standards (FFBS) rating. This FFBS rating was for a decline in its end of year cash balance compared to the prior year. However, the technical guide provides that the SPCSA board may consider whether the decline in cash was the result of a school board's decision to invest the school's funds in a certain manner such as a capital project. Beacon had been saving money over the years and applied some of it to help the school acquire and modify its new East campus to complement its original West campus during fiscal years 20 and 21. SPCSA staff reviewed information provided by the school, the Authority's approval for this campus, as well as the impact of this school board action noting that if the school had simply not expended this cash that its end of year balance would have exceeded the ending cash balance of the prior year. This would have given the school a Meets Standards rating. Consequently, pursuant to the Financial Performance Framework Technical Guide, staff have adjusted the Cash Flow rating to a Meets Standards, as shown above. As a result, the school would meet standards under each indicator.

Equipo Academy

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

The FY22 ratings for Equipo Academy initially generated a Falls Far Below Standards for Cash Flow and a Does Not Meet Standards rating for Unrestricted Days Cash On Hand (UDCOH) and Total Margin. Three Does Not Meet Standards ratings or one Falls Far Below Standard rating ordinarily triggers a Notice of Concern be issued to the school. However, upon further review, staff adjusted certain figures to reflect that major capital expenditures incurred by the school, as approved by the school's governing board, as the school acquired and improved the property next to its current facility. As previously noted in this memo, the technical guide provides that the SPCSA board may consider whether a decline in cash was the result of a school board's decision to invest the school's funds in a certain manner such as a capital project. SPCSA staff have reviewed information provided by the school, and have adjusted the UDCOH to Meets Standard and the Cash Flow rating to Does Not Meet Standard. Consequently, based on the ratings above and the noted adjustments, Equipo is meeting the performance standards under five indicators.

Oasis Academy

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

The initial FY22 ratings revealed that Oasis Academy earned a Meets Standard rating on six measures, with a Falls Far Below Standard rating for a decline in its end of year cash balance as its FY22 cash balance was lower than its FY21 cash balance. However, the technical guide provides that the SPCSA board may consider whether the decline in cash was the result of a school board's decision to invest the school's funds in a certain manner such as a capital project. Oasis had a large capital expense, resulting in a decrease in cash balance. SPCSA staff reviewed information provided by the school, in addition to the Authority's approval for this purchase, and has adjusted the Cash Flow rating to Meets Standard. As a result, the school meets standards under each indicator.

Appendix C: Schools with "Significant Deficiencies" or "Findings" as described in their Audit

For each school listed below, SPCSA Staff will conduct ongoing monitoring under the Organizational Performance Framework regarding the school's progress in resolving the deficiencies or findings. These schools will be asked to provide a status update on resolving these matters as part of quarterly financial statements submitted to the SPCSA.

Amplus Academy

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

Amplus Academy does not have a ratings profile for FY 22 warranting a Notice of Concern or other intervention alternative. However, staff note that Amplus was found to have two "Significant Deficiencies" by its auditors. The audit included the following statements: "In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022."

The audit indicates that "No Material weaknesses were identified." However, the audit identified "Significant deficiencies", including a finding that "Grant Tracking [was] not Accurately Reconciled to the General Ledger." The auditors added: "Certain grants only showed revenues in the accounting system without the underlying expenses pertaining to those revenues. While many of the grants did reconcile, the ESSER grants and the state allocations under the Pupil Centered Funding Program (PCFP) for English Language Learners and At-Risk were not appropriately classified in a timely manner."

The school did respond to this finding as follows: "The School will incorporate a reconciliation of grants to requests for reimbursements as a part of the monthly financial close process, including evidence of such reconciliations on the close checklist."

Mater Academy of Nevada

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

Mater Academy of Nevada Met Standards on six of seven measures. The only measure the school Did Not Meet Standards for was Debt to Asset Ratio, which while not meeting standards, did show improvement over the prior year (decreasing from 99% to 95%).

The auditor had four significant concerns regarding Mater's financial reporting. The auditors identified multiple instances where accurate accounts reconciliations were not adequately performed. In particular, "The school does not have an appropriate process in place to provide consistent support of the timely preparation of account reconciliations to include evidence of the resolution of variances, as well as overall review and approval." It was noted that Academica, the school's management company, experienced turnover in staff during 2022, but has since increased staffing size and are in the process of implementing the auditor's recommended changes.

Auditors also noted that bond interest accrual was only recorded through June 15, rather than to the end of the year on June 30. Additionally, multiple capital leases' amortization schedules did not factor in any residual value at the end of the lease, which resulted in misstatements of year-end lease liability balances. Finally, it was determined that multiple fully depreciated capital assets no longer in use by the school were not recorded as disposals, leading to an overstatement of gross capital assets and gross accumulated depreciation.

Despite these concerns and noting the changes that have already been made to prevent future occurrences, the auditors do not believe that these deficiencies caused any material misstatement in the final audited financial statements.

Somerset Academy of Las Vegas

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

Somerset Academy of Las Vegas Met Standards on all seven measures for FY22.

The auditor had four significant concerns regarding Somerset's financial reporting. The auditors identified multiple instances where accurate accounts reconciliations were not adequately performed. In particular, "The school does not have an appropriate process in place to provide consistent support of the timely preparation of account reconciliations to include evidence of the resolution of variances, as well as overall review and approval." It was noted that Academica, the school's management company, experienced turnover in staff during 2022, but has since increased staffing size and are in the process of implementing the auditor's recommended changes.

Auditors also noted that bond interest accrual was only recorded through June 15, rather than to the end of the year on June 30. Additionally, multiple capital leases' amortization schedules did not factor in any residual value at the end of the lease, which resulted in misstatements of year-end lease liability balances. Finally, it was determined that multiple fully depreciated capital assets no longer in use by the school were not recorded as disposals, leading to an overstatement of gross capital assets and gross accumulated depreciation.

Despite these concerns and noting the changes that have already been made to prevent future occurrences, the auditors do not believe that these deficiencies caused any material misstatement in the final audited financial statements.

Sports Leadership and Management Academy

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

Sports Leadership and Management Academy Met Standards on six of seven measures for FY22. The one measure that SLAM Did Not Meet Standards on was Debt to Asset Ratio.

The auditor had three significant concerns regarding Somerset's financial reporting. The auditors identified multiple instances where accurate accounts reconciliations were not adequately performed. In particular, "The school does not have an appropriate process in place to provide consistent support of the

timely preparation of account reconciliations to include evidence of the resolution of variances, as well as overall review and approval." It was noted that Academica, the school's management company, experienced turnover in staff during 2022, but has since increased staffing size and are in the process of implementing the auditor's recommended changes.

Additionally, multiple capital leases' amortization schedules did not factor in any residual value at the end of the lease, which resulted in misstatements of year-end lease liability balances. Finally, it was determined that multiple fully depreciated capital assets no longer in use by the school were not recorded as disposals, leading to an overstatement of gross capital assets and gross accumulated depreciation.

Despite these concerns and noting the changes that have already been made to prevent future occurrences, the auditors do not believe that these deficiencies caused any material misstatement in the final audited financial statements.