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ACTION MEMORANDUM

TO: SPCSA Board of Directors
FROM: Melissa Mackedon, Executive Director
SUBJECT: TEACH Las Vegas 2022-23 Financial Performance Ratings
DATE: August 23, 2024

Summary of Recommendation

Accept the TEACH Las Vegas 2022-23 Financial Performance Framework results as presented today.

Background

TEACH Las Vegas Charter School (TEACH) is located at 4660 N. Rancho Blvd, Las Vegas, Nevada 89130. TEACH Las Vegas began serving students in grades K-8 during the 2021-2022 school year. TEACH Public Schools, a Charter Management Organization (CMO), operates charter schools in Los Angeles. The CMO applied to start a charter school in Nevada and was approved to start TEACH Las Vegas. The mission of TEACH Las Vegas was to create a high-quality, innovative K-12 teaching and learning environment in North Las Vegas focusing on literacy and integrating state-of-the-art technologies across the core curriculum to achieve academic proficiency for all students.

TEACH Las Vegas encountered significant operational challenges through the school year ending June 30, 2024. These difficulties led the school's board to vote to surrender their charter on June 5, 2024. For additional information, please refer to the memo titled "SPCSA Staff Recommendation Regarding TEACH Las Vegas Charter School Closure, Appointment of Trustee/Administrator & Submitted Closure Plan," dated June 21, 2024.

The financial ratings for TEACH Las Vegas for the 2022-23 fiscal year are as follows:

| | |
|-----------------------------------|---------------------------|
| Current Ratio | Falls Far Below Standards |
| Unrestricted Days Cash On Hand | Falls Far Below Standards |
| Enrollment Variance | Does Not Meet Standards |
| Debt Delinquency or Default | Falls Far Below Standards |
| Total Margin | Does Not Meet Standards |
| Debt To Asset Ratio | Falls Far Below Standards |
| Cash Flow | Meets Standards |
| Debt/Lease Service Coverage Ratio | Does Not Meet Standard |

Analysis and Staff Recommendation

The financial performance of TEACH Las Vegas was especially concerning for the School Year Ending June 30, 2023. Three ratings that had previously met the standards—Current Ratio, Unrestricted Days Cash on Hand, and Debt Delinquency and Default—deteriorated to Falls Far Below Standard ratings. Additionally, certain measures rated as Does Not Meet Standard, specifically Total Margin and Debt/Lease Service Coverage Ratio, are much more concerning than the ratings would indicate due to boundaries of the Financial Performance Framework. The following discussion focuses on select ratings.

The 1st rating, the Current Ratio rated Falls Far Below Standards (FFBS). The school owed, essentially, three dollars for every dollar it had. The standard is that the school should have at least \$1.10 in current assets to cover the cost of every dollar of current liabilities. Instead, the school only had \$0.32. Specifically, the school owed \$1.8m in Current Liabilities and had only \$564k in Current Assets to satisfy them with.

As to the 2nd rating, Unrestricted Days Cash on Hand, the school had \$136k of unrestricted cash available at the end of the school year. The school spent on average \$9,000 per day. Dividing this spend rate into the unrestricted or available cash meant the school only had enough cash available to pay for 15 days, or half a month, of its expenses. The standard is 30 days or more for a year two school. Without borrowing and with the school’s daily spending rate, the school would be unlikely to be able to pay its ongoing incoming obligations in a timely manner.

The 5th rating, the Total Margin rating, by definition, requires the school to have operated for three years to generate the financial information needed to calculate this specific rating. In the interim, a Meets Standard or Does Not Meet Standards rating are calculable. As the school’s Total Margin for FY23 was negative, the school received a Does Not Meet Standards rating for FYE 23. Staff note that the deficit or loss for FY 23 was double what it was for FY 22. This was the result of expenses more than doubling from FY 22 to FY 23. Expenses, primarily Educational Program and Support Services expenses, rose 135% from \$1.7m to just over \$4.0m. For the same period, total revenues increased by only 63%.

The 6th rating, the Debt to Asset ratio, measured at 118.4% for a FFBS. Essentially, this ratio is like a loan to value ratio, such as found in mortgage lending. A Meets Standard rating is a 90% or lower Debt to Assets ratio. A FFBS ratio 100% or more so TEACH Las Vegas’s 118% is

extremely high. A Does Not Meet Standards is for measures between these two measures. This is not a traditional mortgage debt, but the concepts and principles are similar. In this case, this is defined as a Right to Use debt as defined by GASB 87. Essentially, it is a lease viewed as if it were a standard debt obligation. The theory is that it is an obligation similar in enough ways to mortgage debt that if it were reformulated to provide an equivalent view as if it were mortgage debt, it could give analysts and others a comparable view of the financial health of the organization.

Many Nevada charter school leases will not show amounts near the amount shown here of \$13.8m for the value of the right to use asset or liability. This lease shows this high amount for two reasons. First, the lease rates after 2028 are at rates likely to be well above market levels. This lease structure is typically intended to drive schools to the bond market to cash out the developer and return their capital and a profit so they can invest the funds elsewhere. Second, the lease agreement the CMO agreed to was determined by the school's auditors to be a noncancellable lease which is not scheduled to expire until 2046, approximately 21 years from now. The noncancellable aspect of TEACH Las Vegas's lease term means the auditors will multiple the annual lease rate by more years than they would for schools with more standardized leases with typical cancellation clauses.

The only measure that qualified for Meets Standard rating, the 7th measure or Cash Flow measure, deserves a special discussion. The school saw a positive cash flow, specifically an increase in its cash balance of approximately \$41,000. This meant it had more cash in its cash accounts at the end of FY 23 than it had FY 22. It went from \$95k in cash to \$136k for a net increase. At first glance, this is a promising indicator. However, when looking deeper, we see that the total current liabilities (those liabilities expected to be paid within the next year) increased for the same period by far more than the \$136k cash increase. Current Liabilities increased by over \$1.26 million. Current Liabilities rose from \$500k to \$1.76m from FY 22 to FY 23. If anything, the relatively minimal increase in the cash balance compared with the massive increase in Current Liabilities truly underscores how concerning the deterioration of the Unrestricted Days Cash on Hand mentioned earlier is.

For the 8th Financial Performance Rating measure, the Debt/Lease Service Coverage (D/LSCR) ratio, the Financial Performance Framework provides only two ratings options, a Meets Standard or a Does Not Meet Standard rating. TEACH Las Vegas's D/LSCR measured -0.31 (-31%), well below the Meets Standard rating of 1.1 (110%) or greater.

Ordinarily, these financial performance ratings would prompt staff to recommend escalating TEACH Las Vegas from a Notice of Concern to a Notice of Breach, if not Notice of Intent to Terminate. However, after the end of the fiscal year, the TEACH Las Vegas board has opted to surrender their charter contract, making any escalation on the intervention ladder unnecessary.

The school also received from the auditors a finding of "Material Weakness in Internal Control over Financial Reporting." This finding described a number of material issues and potential errors identified by the auditors that the accounting manager at the CMO appeared unable to correct by the end of the fiscal year.

Staff recommends that the SPCSA Board adopt the Financial Performance Framework results for TEACH Las Vegas for fiscal year 2023 for all eight indicators.

Proposed Motion

Adopt the 2022-23 Financial Performance Framework results for TEACH Las Vegas, as described in this memo, for all eight measures.

Appendix A: Financial Performance Framework Results

(One school added by this memo is bold faced below)

| | School | Current Ratio | UDCOH | Enrollment Variance | Debt Default | Total Margin | Debt to Asset Ratio | Cash Flow Measures | Debt Coverage Service Ratio |
|----|---|----------------------|--------------|----------------------------|---------------------|---------------------|----------------------------|---------------------------|------------------------------------|
| 1 | Alpine Academy | MS | MS | MS | MS | MS | MS | MS | MS |
| 2 | Amplus | MS | MS | MS | MS | MS | DNMS | MS | MS |
| 3 | Battle Born Academy | MS | MS | MS | MS | MS | FFBS | N/A | DNMS |
| 4 | Beacon Academy | MS | MS | DNMS | MS | DNMS | MS | MS | MS |
| 5 | CIVICA Academy | MS | MS | MS | MS | MS | FFBS | MS | MS |
| 6 | Coral Academy of Science Las Vegas | MS | MS | MS | MS | MS | MS | MS | MS |
| 7 | Democracy Prep | FFBS | MS | MS | MS | FFBS | FFBS | MS | DNMS |
| 8 | Discovery Charter School | DNMS | DNMS | DNMS | MS | DNMS | FFBS | DNMS | MS |
| 9 | Doral Academy of Nevada | MS | MS | MS | MS | MS | MS | MS | MS |
| 10 | Doral Academy of Northern Nevada | MS | MS | MS | MS | MS | MS | DNMS | MS |
| 11 | Eagle Schools of Nevada | NR | NR | NR | NR | NR | NR | NR | NR |
| 12 | Elko Institute for Academic Achievement | MS | MS | MS | MS | MS | MS | MS | MS |
| 13 | Equipo Academy | DNMS | FFBS | MS | MS | FFBS | DNMS | FFBS | DNMS |
| 14 | Explore Academy | FFBS | FFBS | MS | MS | FFBS | FFBS | FFBS | DNMS |
| 15 | Founders Academy | MS | MS | MS | MS | DNMS | DNMS | MS | MS |
| 16 | Freedom Classical Academy | MS | MS | MS | MS | MS | MS | MS | MS |
| 17 | Futuro Academy | MS | MS | MS | MS | DNMS | MS | MS | MS |
| 18 | Girls Empowerment Middle School | NR | NR | NR | NR | NR | NR | NR | NR |
| 19 | Honors Academy of Literature | MS | MS | MS | MS | DNMS | MS | DNMS | MS |
| 20 | Imagine School at Mountain View | MS | MS | MS | MS | MS | MS | MS | MS |
| 21 | Leadership Academy of Nevada | MS | MS | MS | MS | DNMS | MS | MS | NR |
| 22 | Learning Bridge Charter School | MS | MS | DNMS | MS | MS | MS | MS | MS |
| 23 | Legacy Traditional Schools | MS | MS | MS | MS | MS | FFBS | MS | MS |
| 24 | Mater Academy of Nevada | MS | DNMS | MS | MS | FFBS | DNMS | DNMS | MS |
| 25 | Mater Academy of Northern Nevada | MS | MS | MS | MS | DNMS | MS | MS | MS |

| | School | Current Ratio | UDCOH | Enrollment Variance | Debt Default | Total Margin | Debt to Asset Ratio | Cash Flow Measures | Debt Coverage Service Ratio |
|----|--|----------------------|--------------|----------------------------|---------------------|---------------------|----------------------------|---------------------------|------------------------------------|
| 26 | Nevada Connections Academy | MS | MS | MS | MS | FFBS | MS | FFBS | DNMS |
| 27 | Nevada Prep | FFBS | FFBS | FFBS | FFBS | FFBS | FFBS | FFBS | DNMS |
| 28 | Nevada Rise | MS | MS | MS | MS | MS | MS | MS | MS |
| 29 | Nevada State High School | MS | MS | DNMS | MS | MS | MS | MS | MS |
| 30 | Nevada State High School - Meadowwood | MS | MS | FFBS | MS | MS | MS | MS | MS |
| 31 | Nevada Virtual Charter School | MS | MS | MS | MS | MS | MS | MS | MS |
| 32 | Oasis Academy | MS | MS | MS | MS | MS | MS | MS | MS |
| 33 | pilotED Cactus Park | FFBS | FFBS | FFBS | MS | DNMS | FFBS | NR | DNMS |
| 34 | Pinecrest Academy | MS | MS | MS | MS | DNMS | DNMS | DNMS* ¹ | MS |
| 35 | Pinecrest Academy of Northern Nevada | MS | DNMS | MS | MS | FFBS | FFBS | DNMS | DNMS |
| 36 | Quest Academy | MS | MS | MS | MS | MS | MS | MS | MS |
| 37 | Sage Collegiate | FFBS | MS | DNMS | DNMS | DNMS | FFBS | N/A | DNMS |
| 38 | Signature Preparatory | MS | MS | MS | MS | MS | FFBS | MS | MS |
| 39 | Silver Sands Montessori School | MS | MS | DNMS | MS | MS | MS | DNMS | MS |
| 40 | Somerset Academy of Las Vegas | MS | MS | MS | MS | MS | MS | MS | MS |
| 41 | Sports Leadership and Management Academy | MS | MS | MS | MS | FFBS | DNMS | MS | MS |
| 42 | Strong Start Academy | MS | MS | DNMS | MS | MS | MS | N/A | MS |
| 43 | TEACH Las Vegas | FFBS | FFBS | DNMS | FFBS | DNMS | FFBS | MS | DNMS |
| 44 | Young Women's Leadership Academy | MS | MS | MS | MS | MS | MS | N/A | MS |