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MEMORANDUM

TO: SPCSA Board
FROM: Katie Broughton, Director of Authorizing
SUBJECT: Financial Performance Framework Recommendations for Fiscal Year 2024:
Nevada Prep Follow-Up
DATE: May 30, 2025

Background:

At the SPCSA board meeting on April 18, 2025, Nevada Prep Charter School's financial performance was considered for FY2024. SPCSA staff recommended the board elevate Nevada Prep's current financial Notice of Concern from FY2023 to a financial Notice of Breach for FY2024. April's SPCSA staff memo is included as part of the meeting materials for today's May 30, 2025, board meeting. After extensive discussion between the school and the SPCSA board, the board moved to request additional information for FY2025 and FY2026 to consider before taking further action.

The school submitted all of the past due items related to their financial position, except the monthly financial statement that was due May 1, 2025. Additionally, on May 14, 2025, the school submitted a letter from Opportunity 180 and Building Hope Real Estate, a letter from Raymond James, their amended lease agreement, an FY2026 budget estimate with the current lease, an FY2026 budget estimate with the potential bond financing, and financial projections for both the lease and bond scenario. Finally, the school participated in an enrollment audit on May 21, 2025, so that SPCSA staff could verify the enrollment for FY2026.

SPCSA staff analyzed the information provided by the school, and that analysis is included in this memo. However, SPCSA staff cautions the board from creating a precedent in which a decision related to FY2024 is significantly impacted by FY2025 and projections for FY2026.

The SPCSA board has adopted a financial performance framework that should serve as the foundation and basis for any decision related to the financial performance of a school.

Additional Analysis:

Enrollment

The projections and budgets for both the proposed bond and current lease include an enrollment of 460 students for FY2026. The projections include continued enrollment growth until FY2030. However, during the enrollment audit, the school indicated there were 316 returning students and 63 new students, totaling 379 students for FY2026. Based on this enrollment number, the school's budgeted revenue would decrease by \$762,696.

Additionally, of those 379 students, only 226 could be verified by staff as having all of the required documentation for enrollment. Based on this enrollment number, the school's budgeted revenue would decrease by \$2,203,344.

Either way, the school is currently significantly underenrolled for FY2026, making it difficult to analyze the submitted budget documents. The school's board will have to make determinations related to expenses to account for lower revenue than is currently included in the budget scenarios. Lower than budgeted enrollment would also continue to impact the provided projections.

Enrollment:	460	379	226
Base State Funding: ¹	\$4,331,360	\$3,568,664	\$2,128,016

It is also important to note that though the FY2026 budget anticipates enrollment growth, it also shows that the school plans to cut \$200,000 in instructional salaries. It remains unclear how they plan to provide additional students with a quality education, while simultaneously reducing staffing levels.

Nevada Prep also had declining enrollment for FY2025. The school adopted a final budget for FY2025 with an enrollment of 415 students. Their first quarter Average Daily Enrollment (ADE), the student count payment is based upon, was 403.67 students. Quarter 2 ADE declined to 402.82 students, and Quarter 3 saw a further dip to 395.34 students. This means the school received approximately \$101,600 less than they budgeted for from November 2024 through July 2025.

Bond Financing

The letter from Raymond James includes anticipated financing terms. However, these are not currently guaranteed and are based on current market estimates and subject to change. Enrollment trends, leadership team, board strength, academics, the relationship with the authorizer, and interplay with state law are included as key metrics. Several of these metrics, including enrollment for the 2025 – 2026 school year and academic performance for the 2024 – 2025 school year, have not yet been determined. Additionally, Nevada Prep's charter contract

¹ Based on \$9,416 per pupil allocation included in the final budget scenarios.

ends on June 30, 2026, which means the school will be up for renewal in fall 2025. All of these factors could impact the terms of the proposed bond, which is outlined as follows:

Amount	\$16,375,000
Closing Date	9/30/2025
Interest Rate	7%
Term	40 years
Estimated Payments	FY2026: \$61,000/month \$732,000/year FY2027: \$92,000/month \$1,104,000/year FY2028: \$92,000/month \$1,104,000/year FY2029: \$101,000/month \$1,212,000/year

According to the bond financing projections, the school would make interest only payments until June 1, 2029. While this may aid in month-to-month cash flow while the school attempts to grow, it delays principal reduction and ultimately increases the cost of borrowing. Based on these projections, the school will end up paying approximately \$49 million dollars with the terms as outlined. Furthermore, delaying principal reduction while simultaneously depreciating the asset over its remaining useful life will continue to affect the school's balance sheet negatively, resulting in continued violations of the SPCSA's Financial Performance Framework (specifically Debt to Asset ratio).

The school's current enrollment cap is 500 students, meaning the total number of students they can enroll is 550. Once the school is responsible for the full payment, beginning in FY2029, this would equate to \$2,203 of debt per student (if fully enrolled), which is approximately 23% of the proposed adjusted base funding for FY2026. This debt ratio worsens if the school does not meet its enrollment projections, which in turn reduces the amount of funding available for educational programs for students. It also appears that capital improvements are not included in the bond debt or financial forecasts that have been provided to SPCSA staff, meaning the school's growth would be limited to the current space they occupy. It is unclear whether the current space is sufficient to accommodate growth without further investment, and if not, where further financial resources would come from if needed.

When comparing the bond payments to the current lease payments, the school would see an annual savings, especially in the first year. The savings would dip and then begin to rise again in FY2030. Additionally, the school would receive working capital in FY2026, as part of the bond financing, which would provide some immediate cash flow relief. The impacts of the improved cash flow are apparent in both the budget and projections that include the bond financing scenario. The school would save less than a million dollars over the next seven years.

	Annual Bond Payment	Annual Lease Payment	Savings with Bond
FY2026	\$732,000	\$948,871	\$216,871
FY2027	\$1,104,000	\$1,222,933	\$118,933
FY2028	\$1,104,000	\$1,249,809	\$145,809
FY2029	\$1,212,000	\$1,277,357	\$65,357

FY2030	\$1,212,000	\$1,305,594	\$93,594
FY2031	\$1,212,000	\$1,334,536	\$122,536
FY2032	\$1,212,000	\$1,364,202	\$152,202
TOTAL:			\$915,302

Finally, it is important to note that though the proposed bond financing would have some positive impact on the school's cash flow position, the financial performance of the school will not meet standards for the foreseeable future. The school's own projections in both scenarios are forecasted through FY2030, and even those optimistic projections continue to show at least one "Falls Far Below Standard" rating, which would continue to make the school eligible for the continuation and elevation of Notices.

These budgets and projections also continue to have razor thin margins with no contingency, leaving little room for error. It remains unclear what will happen if the school is unable to meet the enrollment and revenue projections (as appears to be the case for FY2026) or if unexpected costs arise.

Philanthropic Donation

Nevada Prep submitted a letter from Opportunity 180 and Building Hope Real Estate that confirms their intention to make a charitable donation up to \$100,000 to support the school's cash flow needs. The gift is contingent on several items that must be met on or before July 31, 2025:

- Charter Standing: The school has not received a formal Notice of Breach from its charter school Authorizer.
- Financing Commitment: A Letter of Commitment to Finance the school's facility has been issued by its Bond Underwriter.
- Academic Performance: The school demonstrates clear progress towards achieving an academic rating equivalent to at least a 3-star designation under Nevada's accountability framework.
- Enrollment: The school demonstrates progress aligned to enrollment plan to meet minimum enrollment requirements.
- Real Estate Transaction: The school has entered into a Purchase and Sale Agreement for its permanent facility, with the transaction scheduled to close no later than October 15, 2025.

SPCSA staff has outstanding questions regarding the academic performance and enrollment contingencies outlined in this letter. Regarding academic performance, it is unclear how progress will be measured, especially because official star rating data is not released until after the identified July 31 deadline. Regarding enrollment, it is not clear what the minimum enrollment requirements are in the enrollment plan. As such, SPCSA staff is unable to determine if the school is on track to fulfill these contingencies to be eligible for this funding.

Proposed Motion:

SPCSA staff recommends the SPCSA board continue the financial Notice of Concern and require additional financial monitoring, based upon the school's financial performance, as determined in the annual audit, for FY2024. As outlined in the [SPCSA's Performance Framework](#), correcting the financial deficiencies as identified through the Financial Performance Framework is ultimately the school's responsibility. This is inherent to the charter school bargain, as schools are afforded a high degree of local decision-making control in exchange for strong accountability. This financial Notice of Concern will require additional communication, monitoring, and reporting, especially related to the school's current and future budgets and monthly financial statements. A proposed motion can be found below:

Motion to continue the Notice of Concern under the Financial Performance Framework for Nevada Prep Charter School. As part of this Notice of Concern, the school will be required to participate in heightened monitoring, directed by SPCSA Staff, including but not limited to:

- Submitting and amending budgets;***
- Submitting of monthly budget to actual reporting;***
- Providing monthly evidence of payment to PERS; and***
- Providing ongoing access to accounting and financial records, as requested by SPCSA staff, as part of the heightened financial monitoring.***

Failure to provide requested documentation by the deadline set by SPCSA staff, or failure to respond to SPCSA inquiries within three (3) business days, will result in a subsequent appearance before the Board and a possible escalation to a Notice of Breach under the Financial Performance Framework.