



# **2018-19 Five-Year Charter Review Report**

## **Harmony DC Public Charter School**

**November 19, 2018**

DC Public Charter School Board  
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## **BOARD VOTE AND KEY FINDINGS<sup>1</sup>**

### Staff Recommendation

The District of Columbia Public Charter School Board (DC PCSB) staff conducted a five-year charter review of Harmony DC Public Charter School (Harmony DC PCS) according to the standard required by the School Reform Act (SRA), and concluded that the school has not met the goals and student academic achievement expectations set out in its charter. While Harmony DC PCS struggled in its first four years of operation to demonstrate evidence of student academic achievement, the school has shown notable improvement in the last year, with the third highest margin of growth among DC charter schools on the state assessment in school year (SY) 2017-18.

Harmony DC PCS chose the Performance Management Framework (PMF) to measure its goals and student academic achievement expectations. Harmony DC PCS is measured using the PK-8 Framework, which awards between 0 and 100% of points using common measures to measure student academic achievement. Student academic progress in English language arts (ELA) and math accounts for 40% of the overall score, as does student academic achievement in ELA and math. The remaining 20 points are divided among attendance and re-enrollment rates. When it adopted the PMF as goals, Harmony DC PCS agreed to earn at least 40% of the possible points in at least two of the most recent three years of operation.

Pursuant to its charter agreement, Harmony DC PCS has not met its goals and student academic achievement expectations. Nor is the “improvement provision” in its goals applicable. This provision allows the DC PCSB Board the discretion to find that the school has met its goals “if it has demonstrated consistent improvement over the course of the most recent five-year period.” The school has not shown “consistent” improvement. Specifically, the school’s PMF scores since SY 2015-16 have been 38.5%, 30.8%, and 45.4%, with only one year above 40%, the standard for approval.

However, between SY 2016-17 and SY 2017-18, Harmony DC PCS’s PMF score improved by 15 percentage points, which is a notable gain. The SRA provides that, during a review such as this, the DC PCSB Board “may” revoke the charter of a school that has failed to meet its goals and academic achievement expectations.<sup>2</sup> Given the extensive turnaround efforts already underway at the school, the dramatic improvement seen in the past year, and the fact that the school is in its fifth year of operation, when the Board has in the past shown a willingness to allow well-developed turnaround efforts to proceed, DC PCSB staff recommended that the DC PCSB Board vote to continue Harmony DC PCS’s charter, provided that it agrees to the conditions stipulated later in this section.

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<sup>1</sup> The Appendix to this report may be accessed at: <https://dcpcsb.egnyte.com/dl/Vun36rgBfZ>.

<sup>2</sup> D.C. Code § 38-1802.13(a).

### Key Findings and Board Vote

Harmony DC PCS is a single campus local education agency (LEA) that serves grades Kindergarten (K) through five in Ward 5. While the school was approved to ultimately serve grades K-12, it has never expanded beyond the fifth grade and has struggled with enrollment every year. Despite an enrollment ceiling of 480 students, it currently enrolls just 117 students, which is its highest enrollment yet. The school blames part of its enrollment challenges on not enrolling PK and is interested in expanding to these grades. The school is located in an older building in Ward 5 with no field or gym and limited amenities. Harmony DC PCS is managed by the Harmony Public Schools organization, a charter school management organization that is located in Texas and runs an additional 56 public charter schools in that state

The school adopted the PMF as its goals and student academic achievement expectations based on the *Elect to Adopt the PMF as Goals* policy from May 2014. In 2017, DC PCSB modified this policy to change the achievement targets to an average PMF score of 40 for schools undergoing a 5-year review. Harmony DC PCS has elected not to adopt the newest version of the PMF policy. Had the school adopted the revised targets, it still would have failed to meet its goals.

The school's state assessment performance and growth have generally been below state averages. However, the school has shrunk the gap between its results and the state averages, and in the most recent year of the review period fell only two points behind the state average in both English language arts (ELA) and math. In SY 2017-18, Harmony DC PCS also outperformed the state average in Approaching College and Career Ready (level 3+) among several subgroups, including Black Non-Hispanic and At-Risk students, for both ELA and math, a notable improvement from prior years.

One area of concern is the school's consistently low re-enrollment rate. The school has never received points on the PMF for re-enrollment because its re-enrollment has always fallen below the PMF floor. The school's re-enrollment rate for SY 2016-17 to 2017-18 was 51.3%, the lowest rate in the charter sector, with nearly half of all students eligible to return choosing not to return to the school.

Due to its low enrollment, Harmony DC PCS has had challenges with maintaining financial liquidity over time. At the beginning of the review period, the school had negative net assets, meaning its liabilities exceeded its assets, which was a source of concern to DC PCSB. The school's strong cost management and receipt of a substantial private donation in 2018 have allowed Harmony DC PCS to generate surpluses despite fluctuations in its enrollment. However, the school's liquidity remains an area of concern and enrollment must grow to ensure the school remains economically viable long-term.

Separate and apart from the determination of the school's goals and student academic achievement expectations attainment, the school has not materially violated the law or its charter and has not engaged in a pattern of fiscal mismanagement.

For the reasons noted above, DC PCSB staff recommended that the Board exercise its discretion to continue a school that does not meet its goals at the time of review, with a strict set of improvement conditions that the school must meet to remain open. On November 19, 2018, the DC PCSB Board voted to continue the school 6-0 with the following conditions:

The LEA and DC PCSB will execute a charter agreement amendment by December 15, 2018, that commits the school to the following conditions:

1. Harmony DC PCS must earn a score of at least 45% on the PK-8 PMF in SY 2018-19, 2019-20, and 2020-21. If the school fails to earn a score of at least 45% on the PK-8 PMF in any of the aforementioned school years, Harmony DC PCS will relinquish its charter by November 15, operate the school with integrity for the remainder of the school year, and cease operation by June 30 of that school year;
2. Harmony DC PCS may expand to serve grades PK3-PK4 beginning in SY 2019-20, provided that it incorporates as part of its charter agreement a memorandum of understanding with a third-party operator that has experience with PK and a track record of success—specifically, the operator must meet the standard in DC PCSB's Enrollment Ceiling Increase policy—to provide the PK curriculum and instruction;
3. Harmony DC PCS must amend its charter agreement to eliminate its eligibility to serve grades 6-12, unless and until the school returns to DC PCSB to apply for a charter agreement amendment to expand its grade levels served beyond grade 5;
4. Harmony DC PCS must decrease its enrollment ceiling from 480 students to a maximum of 250 students, and submit a five-year budget to describe how the school will remain economically viable with such enrollment; and
5. Given the cost of the school's turnaround and the reliance on philanthropic funds that largely come from a single source to pay for this turnaround, Harmony DC PCS must provide evidence that at least \$500K per year has been secured for SY 2018-19 and SY 2019-20.

Additionally, Harmony DC PCS must enter into a Financial Corrective Action Plan (FCAP) in agreement with DC PCSB. If the school does not agree to these terms and sign a charter agreement amendment and FCAP by December 15, 2018, staff recommends that the Board vote to initiate revocation proceedings of the LEA.

## **CHARTER REVIEW STANDARD**

The SRA stipulates that DC PCSB “shall review [a school’s] charter at least once every [five] years.”<sup>3</sup> As part of this review, DC PCSB must determine whether:

- (1) The school committed a violation of applicable law or a material violation of the conditions, terms, standards, or procedures set forth in its charter, including violations relating to the education of children with disabilities; and/or
- (2) The school failed to meet the goals and student academic achievement expectations set forth in its charter.<sup>4</sup>

If DC PCSB determines that a school has committed a violation of applicable law or a material violation of the terms of its charter, or has not met its goals and academic achievement expectations, it may, at its discretion, revoke the school’s charter or grant the school a conditional continuance.

Additionally, there is a fiscal component to the charter review. DC PCSB is required by the SRA to revoke a school’s charter if DC PCSB determines in its review that the school: (1) has engaged in a pattern of nonadherence to generally accepted accounting principles, (2) has engaged in a pattern of fiscal mismanagement, and/or (3) is no longer economically viable.<sup>5</sup>

Given the SRA’s standard for charter review, as well as DC PCSB’s obligation to revoke a school’s charter if it has engaged in the above fiscal misconduct, this report is organized into three sections. Sections One and Two are analyses of the school’s academic performance and legal compliance, respectively, and serve as the basis for DC PCSB staff’s recommendation. Section Three is an analysis of the school’s fiscal performance.

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3 D.C. Code § 38-1802.12(a)(3).

4 D.C. Code § 38-1802.13(a).

5 D.C. Code § 38-1802.13(b).

## **BACKGROUND INFORMATION ABOUT SCHOOL**

### **School Overview**

Harmony DC PCS began operating in SY 2014-15 under authorization from DC PCSB and currently serves students in grades Kindergarten (K) to 5 at a single campus in Ward 5.

The mission of Harmony DC PCS is:

To prepare students for higher learning in a safe, caring, and collaborative atmosphere through a quality learner-centered educational program with a strong emphasis on science, technology, engineering, and mathematics.<sup>6</sup>

Though Harmony DC PCS is approved to serve grades K-12, the school has not expanded past grade 5. Per its charter agreement, the school may grow by one grade level each year until it reaches maturation with grade 12. However, given its challenges with enrollment and improving student academic achievement, the school has not expressed interest in serving students beyond grade 5.

Harmony DC PCS is managed by the Harmony Public Schools organization, a charter school management organization that is located in Texas and runs an additional 56 public charter schools in that state. The organization focuses on science, technology, engineering, and mathematics (STEM) learning. Harmony DC PCS is the first Harmony school that operates outside of Texas.

Harmony DC PCS places a strong emphasis on STEM education and incorporates project-based learning into its curriculum. Students are required to determine projects of their own interest and the school aligns these student-driven projects to national Common Core standards.<sup>7</sup>

### **Enrollment and Demographic Trends**

The tables below show Harmony DC PCS's enrollment, which has been low since the school opened in SY 2014-15. The school has failed to meet its enrollment projections every year, which it attributes in part to the fact that Harmony DC PCS is among the only elementary charter schools in DC that does not offer an early childhood program that begins with PK.

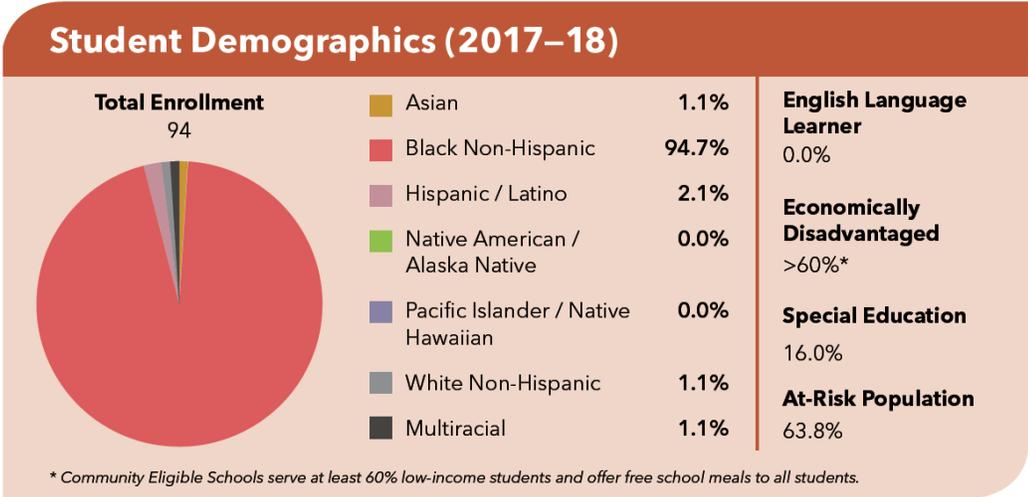
In SY 2018-19, Harmony DC PCS has an enrollment ceiling of 480 students. In SY 2017-18 the school served less than a third of its enrollment ceiling. The student body is 95.9% African American and 50.5% at-risk, with 22.7% of students requiring special education. Currently no students are English language learners.

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<sup>6</sup> See Harmony DC PCS charter agreement, p. 2, attached to this report as Appendix A.

<sup>7</sup> Harmony DC PCS Annual Report, SY 2016-17, attached to this report as Appendix B.

Harmony DC PCS – Enrollment for Grade Levels K-5					
School Year	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Audited Enrollment</b>	66	105	97	94	117
<b>Enrollment Projections</b>	216	216	264	125	120



**Performance Management Framework Outcomes**

The school’s overall performance data on the PK-8 PMF – which assesses reading and math proficiency, academic growth, attendance, and re-enrollment, as well as other measures – are summarized in the table below.

Harmony DC PCS’s first year of operation was SY 2014-15, a year when no school received a tier or PMF score. In SY 2015-16, Harmony DC PCS earned a Tier 2 rating, with a score of 38.5%. In SY 2016-17, Harmony DC PCS declined to Tier 3 status with a score of 30.8%. In SY 2017-18, Harmony DC PCS advanced back to Tier 2 status, with a score of 45.4%.

The school elected to adopt the PMF as its goals and student academic achievement expectations in 2014, and although DC PCSB approved a new version of the *Elect to Adopt the PMF as Goals* Policy in September 2017, Harmony DC PCS has elected to remain with the 2014 standard for review rather than adopt the most recent version of the policy. As such, the school must earn a PMF score of 40% in at least two of the three most recent school years to meet its goals or, per the improvement provision, show consistent improvement. The school has achieved neither, although it demonstrated marked improvement between SY 2016-17 and 2017-18, when it received its highest PMF score to date.

<b>Harmony DC PCS – PMF Outcomes</b>			
<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
<b>N/A<sup>8</sup></b>	<b>Tier 2</b> 38.5%	<b>Tier 3</b> 30.8%	<b>Tier 2</b> 45.4%

**Communication with the School**

DC PCSB staff and Board members discussed performance with the school twice over the past five school years in formal meetings —on April 5, 2017 and November 30, 2017. During both meetings participants discussed the school’s financial solvency, student enrollment, academic performance, and the school’s five-year review in SY 2018-19. At the meeting on November 30, 2017, DC PCSB made clear to the school that Harmony DC PCS was in jeopardy of not meeting its goals. In response, the school’s board acknowledged Harmony DC PCS’s struggles with academics and enrollment and stated the school’s board was considering whether to relinquish its charter or pursue an intensive turnaround plan to improve the school’s overall operations and academic program. The school later informed DC PCSB that it elected to pursue an intensive turnaround, which included securing a large, multi-year, philanthropic gift which is also forecasted to be a source of revenue through fiscal year (FY) 2020. Since then, Harmony DC PCS has generated a surplus and ended FY 2018 with net assets of \$200K.

DC PCSB staff met with school leaders at Harmony DC PCS on April 4, 2018 to discuss the five-year review. During this meeting, staff explained that that the school would not meet its goals and student academic achievement expectations because Harmony DC PCS needed to earn a score of 40.0% or higher for at least two of the three previous school years, which the school had not. DC PCSB staff also explained that the school would not be eligible for the improvement provision of its goals, as its PMF score had dropped between its second and third years of operation.

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<sup>8</sup> The school did not receive a PMF score or tier in SY 2014-15 because this was its first year of operation. Additionally, due to the change in the state assessment, scores and tiers were not displayed in 2014–15 for any schools.

## **SECTION ONE: GOALS AND ACADEMIC ACHIEVEMENT EXPECTATIONS**

The SRA requires DC PCSB to review whether a school has met its goals and student academic achievement expectations at least once every five years. Goals and academic achievement expectations are considered part of the review analysis only if they were included in a school’s charter or charter amendment approved by the DC PCSB Board.

In July 2014, Harmony DC PCS adopted as its goals and student academic achievement expectations the *Elect to Adopt the PMF as Goals* Policy that had most recently been revised in May 2014.<sup>9</sup>

The chart below summarizes DC PCSB’s determinations of whether each of the school’s academic programs met its respective goals and academic achievement expectations. These determinations are further detailed in the body of this report.

<b>Goals and Academic Expectations</b>	<b>Met?</b>
<b>The elementary/middle school program will be deemed to have met its goals and academic achievement expectations if at its five-year charter review in school year 2018-19, the school earns at least 40% of the possible PMF points in at least two of the most recent three years in operation (2015-16, 2016-17, and 2017-18).</b>	<b>Not Met</b>
<b>For the Early Childhood (EC) PMF and in accordance with PCSB’s EC PMF Policy, the school shall use the assessments for the Progress and Achievement Indicators and meet the established threshold per the most recent EC PMF Technical Guide.</b>	<b>N/A<sup>10</sup></b>

Assessment: **Harmony DC PCS did not meet its goals and academic achievement expectations.** The table below provides an overview of the school’s PMF performance. DC charter schools did not receive a score on the 2014-15 PMF, because DC transitioned from the DC CAS to the PARCC (Partnership for Assessment of Readiness for College and Career) assessment. The school’s Early Childhood goal in SY 2014-15, could not be measured, and it

<sup>9</sup> Please see the Elect to Adopt the PMF as Goals Policy attached as Appendix C

<sup>10</sup> In SY 2014-15, DC PCSB discontinued the EC PMF and published the PK-8 PMF for the first time. The school has not adopted the updated Elect to Adopt the PMF as Goals Policy, which would have updated the wording in its charter to have the PK-8 PMF standard as its goals and early childhood assessments as evidence to support its goals. DC PCSB did not publish an EC PMF Technical Guide once the PK-8 PMF was established. This goal cannot be measured.

did not achieve a PMF score of at least 40% in two of the most recent three years of its review period.

The improvement provision in the school’s charter states that if the school has not achieved its PMF score goals, the DC PCSB Board may determine at its discretion that the school has met its goals and student academic achievement expectations if the school has demonstrated consistent improvement over a five-year period.

In this case, the school has not shown consistent improvement over the years of its review period. Harmony DC PCS’s PMF score declined between SY 2015-16 and SY 2016-17, and thus the school has not met its goals under the improvement provision.

Harmony DC PCS – PMF Outcomes				
2014-15	2015-16	2016-17	2017-18	Assessment
N/A <sup>11</sup>	Tier 2 38.5%	Tier 3 30.8%	Tier 2 45.4%	Does not meet 40% in two of three most recent years

**Student Academic Achievement and Progress Measures**

The school’s PMF score is based on the following:

- Proficiency rates in ELA and math on the statewide assessment (the PARCC test) taken by 3<sup>rd</sup> through 8<sup>th</sup> graders.
- Academic growth from one year to the next on the PARCC, as measured by the Median Growth Percentile (MGP), which assesses the relative year-to-year progress made by individual students at a school.
- School environment measures, including attendance rates, re-enrollment rates, and scores from the Classroom Assessment Scoring System (CLASS), which assesses classroom instruction in PK.
- For SY 2014-15, the following measures count toward goal attainment for the school’s early childhood program:
  - PK CLASS Scores in the Emotional Support, Organization and Instructional Support Domains: The school must meet or exceed the threshold for the CLASS score in each domain that is scored by an external vendor.
  - PK Literacy mCLASS Circle Assessment: The percent of PK3-PK4 students achieving a proficient score must meet or exceed the threshold for the mClass Circle literacy assessment.

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<sup>11</sup> Due to the change in the state assessment, scores and tiers were not displayed in 2014–15.

- PK Math mCLASS Circle Assessment: The percent of PK3-PK4 students achieving a proficient score must meet or exceed the threshold for the mClass Circle math assessment.
- K-2 Literacy mCLASS Circle Assessment: The percent of K-2 students achieving a proficient score must meet or exceed the threshold for the mClass Circle literacy assessment.
- K-2 Math mCLASS Circle Assessment: The percent of K-2 students must meet or exceed the threshold for the mClass Circle math assessment.

The PARCC is the assessment given to all DC public school students in ELA and math beginning with the third grade. Student academic achievement—the percentage of students scoring College and Career Ready on the PARCC in ELA or math—and student progress—as measured by the Median Growth Percentile (MGP), which assesses the relative year-to-year progress made by individual students at a school—are only part of the school’s PMF score if more than 10 students in the school took the state assessment

Beginning on the following page, this report reviews each of these components in detail. This review includes proficiency tables that display PARCC results for subgroups as well as charts of the school’s environment measures. Many charts are color coded. Please use the following key:

<b>KEY for Campus Rate Data Charts</b>	
<b>3+</b>	<ul style="list-style-type: none"> <li>• A PARCC score of 3 = Approaching College and Career Ready</li> <li>• 3+ denotes the percentage of students who obtained a 3, 4, or 5 on the PARCC</li> </ul>
<b>4+</b>	<ul style="list-style-type: none"> <li>• A PARCC score of 4 = College and Career Ready</li> <li>• 4+ denotes the percentage of students who obtained a 4 or 5 on the PARCC</li> <li>• 4+ is considered to be proficient</li> </ul>
<b>n-size</b>	Number of students who took the state assessment at this school
<b>Green</b>	<ul style="list-style-type: none"> <li>▪ Greater than or equal to the state average or charter sector average of the same grade band</li> </ul>
<b>Red</b>	<ul style="list-style-type: none"> <li>▪ Less than the state average or charter sector average of the same grade band</li> </ul>
<b>No Shading</b>	<ul style="list-style-type: none"> <li>▪ Data from 2014-15, when the state transitioned to PARCC and the school performed below the state average. (Note – as stated above, if the school did better than the state average, this is colored green.)</li> <li>▪ PK – 2 “display only” data that does not factor into the PMF score or goal attainment.</li> </ul>

## English Language Arts (ELA)

### ELA Proficiency

Harmony DC PCS's overall proficiency rates in ELA have shown results lower than the state average during the review period. The school's PARCC performance was 11.7 percentage points below the state average for students Approaching College and Career Ready (level 3+) in SY 2014-15 and remains 8.9 percentage points below the state average in the most recent year of operation, SY 2017-18. In the most recent year of the review period, Harmony DC PCS outperformed the state average in Approaching College and Career Ready (level 3+) among several subgroups, including Black, male, and At-Risk students.

Harmony DC PCS ELA Proficiency Grades 3-5									
		2014-15 PARCC		2015-16 PARCC		2016-17 PARCC		2017-18 PARCC	
		School	State	School	State	School	State	School	State
All	% 3 +	36.8	48.5	51.0	51.8	46.4	55.1	55.1	57.1
	% 4 +	10.5	25.3	20.4	27.7	10.7	31.4	24.5	33.4
	<i>denominator</i>	19		49		56		49	
Black Non-Hispanic	% 3 +	36.8	40.7	51.0	44.2	47.3	47.3	53.2	49.1
	% 4 +	10.5	16.6	20.4	19.7	10.9	22.3	23.4	24.4
	<i>denominator</i>	19		49		55		47	
Students with Disabilities	% 3 +	N/A	14.1	33.3	19.4	36.4	20.8	N/A	18.4
	% 4 +		4.4	0.0	6.7	0.0	7.5		6.3
	<i>denominator</i>			12		11		<i>n &lt; 10</i>	
Male	% 3 +	50.0	43.6	42.3	46.5	42.4	49.4	53.1	50.5
	% 4 +	16.7	21.5	11.5	23.8	12.1	26.5	12.5	27.8
	<i>denominator</i>	12		26		33		32	
Female	% 3 +	N/A	53.5	60.9	57.2	52.2	60.9	58.8	63.8
	% 4 +		29.0	30.4	31.6	8.7	36.3	47.1	39.1
	<i>denominator</i>	<i>n &lt; 10</i>		23		23		17	
At-Risk	% 3 +			47.6	36.1	37.0	40.2	48.4	42.4
	% 4 +			9.5	13.2	3.7	16.2	12.9	18.4
	<i>denominator</i>			21		27		31	

## ELA Growth

A median growth percentile (MGP) of 50 indicates that a school's students have average year-to-year growth in ELA, as compared to other DC students in the same grades and with the same initial state assessment performance. An MGP above 50 indicates that the school's students have above-average year-to-year growth, while an MGP below 50 indicates below-average growth.

Harmony DC PCS has had mixed results overall for ELA growth on the state assessment. The school's growth was above average in SY 2015-16, but it declined by nearly 12 points the following school year. In SY 2017-18, ELA growth improved slightly with at-risk students having the highest subgroup MGP, but still overall scoring below 50.0.

<b>Harmony DC PCS - School of Excellence ELA Growth Grades 3-5</b>				
	2014-2015 PARCC	2015-2016 PARCC	2016-2017 PARCC	2017-2018 PARCC
All	n < 10	53.1	41.4	43.5
Black Non-Hispanic	n < 10	53.1	41.4	41.5
Students with Disabilities	N/A	n < 10	31.3	24.8
Male	n < 10	42.9	36.0	43.3
Female	n < 10	61.4	44.7	42.2
At-Risk	N/A	79.5	47.0	47.7

## **Math**

### Math Proficiency

Harmony DC PCS's overall proficiency rates have shown mixed results since the first year of PARCC testing in SY 2014-15 and the school has not reached or exceeded the state average in any year of the review. While the school was 19.5 percentage points below the state average for students Approaching Career and College Ready (level 3+) in SY 2014-15, it has continued to close the gap and fell only two percentage points below the state average in SY 2017-18. Proficiency rates were low among At-Risk students in SY 2016-17, with over 70% of those students scoring level one or two in math. However, in the most recent year of the review period, the school outperformed the state average in this subgroup and more than 50% of At-Risk students scored level three or above. The school has made gains among Black students (the majority of the school's population), with this subgroup performing above the state average in both level 3+ and level 4+ for the first time in SY 2017-18.

Harmony DC PCS Math Proficiency Grades 3-5									
		2014-15 PARCC		2015-16 PARCC		2016-17 PARCC		2017-18 PARCC	
		School	State	School	State	School	State	School	State
All	% 3 +	35.0	54.5	44.9	57.2	42.9	59.3	59.2	61.2
	% 4 +	15.0	27.9	26.5	33.2	19.6	34.1	32.7	36.1
	<i>denominator</i>	20		49		56		49	
Black Non-Hispanic	% 3 +	35.0	46.8	44.9	49.8	41.8	51.8	57.4	53.6
	% 4 +	15.0	20	26.5	25.1	20.0	25.0	29.8	27.1
	<i>denominator</i>	20		49		55		47	
Students with Disabilities	% 3 +	N/A	19.6	25.0	26.4	18.2	26.8	N/A	25.1
	% 4 +		5.8	16.7	10.9	9.1	10.5		9.7
	<i>denominator</i>	<i>n &lt; 10</i>		12		11		<i>n &lt; 10</i>	
Male	% 3 +	41.7	52.8	38.5	55.1	45.5	57.3	56.2	58.6
	% 4 +	16.7	27.6	26.9	32	24.2	33.4	31.2	34.6
	<i>denominator</i>	12		26		33		32	
Female	% 3 +	N/A	56.2	52.2	59.4	39.1	61.4	64.7	63.9
	% 4 +		28.2	26.1	34.3	13.0	34.9	35.3	37.7
	<i>denominator</i>	<i>n &lt; 10</i>		23		23		17	
At-Risk	% 3 +			42.9	42.8	29.6	45.1	51.6	47.1
	% 4 +			23.8	19.2	11.1	20.0	16.1	21.3
	<i>denominator</i>			21		27		31	

### Math Growth

An MGP of 50 indicates that a school's students have average year-to-year growth in math proficiency, as compared to other DC students in the same grades and with the same initial state assessment performance. An MGP above 50 indicates that a school's students have above-average year-to-year growth, while an MGP below 50 indicates below-average growth.

Harmony DC PCS's math growth has steadily increased over the past three years. While the school began with math MGP as low as 29 in SY 2015-16, its growth increased over eight points the following year. In SY 2017-18, overall growth was above 50 for the first time and nearly every subgroup grew at above-average rates as well.

<b>Harmony DC PCS - School of Excellence Math Growth Grades 3-5</b>				
	2014-2015	2015-2016	2016-2017	2017-2018
All	n < 10	29.0	37.6	54.2
Black Non-Hispanic	n < 10	29.0	37.6	52.7
Students with Disabilities	N/A	n < 10	44.8	58.4
Male	n < 10	31.5	38.5	50.6
Female	n < 10	37.0	39.8	54.5
At-Risk	N/A	26.0	30.8	46.7

**Prekindergarten and Kindergarten-Second Grade Measures**

DC PCSB allows schools to choose the assessments for math and literacy that best fit the academic program and philosophy of the early childhood environment at the school. Though scores on these assessments for K-2 are not formally included in this school’s PMF score, they are included as indicators of student academic progress and achievement in these grade bands and are included in the analysis when determining if the consistent improvement provision applies. The results displayed below reflect the percent of students who met or exceeded the test publisher’s expectations for achievement at the end of the year.

Notably, the school has poor growth in literacy compared to the national population, which is generally a score of 50. While the school had a strong literacy growth score in SY 2014-15, it has since declined below 50. For math, the school landed in the publishers display range for all reported years, but Harmony DC PCS’s math performance in the last two years fell slightly below a 50% median. While not the display range floor, a 50% median is average performance and is a useful benchmark to measure how a school is performing on these assessments.

DC PCSB allows schools to choose the assessments for math that best fit the academic program and philosophy of the early childhood environment at the school. Though scores on these assessments for K-2 are not formally included in this school’s PMF score, they are included as indicators of student academic progress and achievement in these grade bands and are included in the analysis when determining if the consistent improvement provision applies. The results displayed below reflect the percent of students who met or exceeded the test publisher’s expectations (or “display range”) for achievement at the end of the year.

<b>K-2 Literacy Student Outcomes</b>		
<b>Year</b>	<b>Measure</b>	<b>Result</b>
2014-15	<p>NWEA MAP</p> <p>Percent of students who met or exceeded the publisher's expectations for growth by the end of the year</p> <p>Display Range: 40 to 70 Northwest Evaluation Association's Measure of Academic Progress (NWEA MAP):</p>	63.0
2015-16	NWEA MAP	36.0
2016-17	Median percentile of student growth compared to national student performance	47.0
2017-18	<p>Display Range: 30 to 70</p>	42.0

<b>K-2 Math Student Outcomes</b>		
<b>Year</b>	<b>Measure</b>	<b>Result</b>
2014-15	<p>NWEA MAP</p> <p>Percent of students who met or exceeded the publisher's expectations for growth by the end of the year</p> <p>Display Range: 40 to 70</p>	81.5
2015-16	NWEA MAP	55.0
2016-17	Median percentile of student growth compared to national student performance	45.0
2017-18	<p>Display Range: 30 to 70</p>	47.0

## School Environment Measures

School environment measures, which include in-seat attendance, re-enrollment, and CLASS for PK, are designed to show the school's climate and parent satisfaction.

### In-Seat Attendance

DC PCSB measures In-Seat Attendance (ISA) as the rate at which students are present in the school building; the rate includes both excused and unexcused absences. Harmony DC PCS has continuously fallen below the charter sector average for ISA but has shown some improvement since its first year of operation.

Harmony DC PCS Grades K-5 In-Seat Attendance								
	2014-15		2015-16		2016-17		2017-18	
	School	Charter Sector						
All Students	88.2	93.8	92.0	93.3	92.1	93.6	91.2	93.3

### Re-enrollment

A school's re-enrollment rate assesses family satisfaction with a school by measuring the rate at which students who are eligible to return from one year's official enrollment audit to the next year's official enrollment audit.<sup>12</sup> Students who move out-of-state or have other situations that would prevent them from re-enrolling are excluded from this rate.

Harmony DC PCS's re-enrollment rate has been below the sector average each year during this review period. In the first two years measured, the school's re-enrollment rate was over 17 percentage points below the charter sector average, with one third of students choosing not to return each year. Its re-enrollment rate worsened from SY 2016-17 to 2017-18, with just 51.3% of students returning, which is the lowest rate in the charter sector at over 30 percentage points below the sector average. The school has never received points on the PMF for re-enrollment because its rate is consistently below the 10<sup>th</sup> percentile of public charter schools and thus is below the threshold for earning points for this measure.

Harmony DC PCS Re-enrollment Rates						
	2014-15 to 2015-16		2015-16 to 2016-17		2016-17 to 2017-18	
	School	Charter Sector	School	Charter Sector	School	Charter Sector
Eligible Students	65.5	83.0	67.0	84.1	51.3	84.8
	55		88		78	

<sup>12</sup> The enrollment audit occurs in October of each school year.

## **SECTION TWO: COMPLIANCE WITH CHARTER AND APPLICABLE LAWS**

The SRA requires DC PCSB to determine at least once every five years whether a school has “committed a violation of applicable law or a material violation of the conditions, terms, standards, or procedures set forth in its charter, including violations relating to the education of children with disabilities.”<sup>13</sup> The SRA contains a non-exhaustive list of applicable laws, which DC PCSB monitors in its annual compliance reviews.

Since SY 2013-14, Harmony DC PCS has been compliant with **ALL** the following applicable laws.<sup>14</sup>

- Fair Enrollment Process  
(D.C. Code § 38-1802.06)
- Notice and Due Process for Suspensions and Expulsions  
(D.C. Code § 38-1802.06(g))
- Student Health and Safety  
(D.C. Code §§ 38-1802.04(c)(4), 4-1321.02, 38-651)
- Equal Employment  
(D.C. Code § 38-1802.04(c)(5))
- Insurance  
(As required by the school’s charter)
- Facility Licenses  
(D.C. Code § 47-2851.03(d); D.C. Mun. Regs., tit. 14, §§ 14-1401 et seq.)
- Proper Composition of Board of Trustees  
(D.C. Code § 38-1802.05(a))
- Accreditation Status  
(D.C. Code § 38-1802.02(16))

### **Procurement Contracts**

D.C. Code § 38-1802.04(c)(1) requires DC charter schools to use a competitive bidding process for any procurement contract valued at \$25,000 or more and, within three days of awarding such a contract, to submit to DC PCSB all bids received, the contractor selected, and the rationale for which contractor was selected. To ensure compliance with this law, DC PCSB requires schools to submit a data form to detail any qualifying procurement contract that the school has executed.

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<sup>13</sup> D.C. Code § 38.1802.13(a).

<sup>14</sup> Detailed compliance chart may be found in Appendix D

DC PCSB began implementing a new Procurement Contract Submission and Conflicting Interest Policy on July 1, 2018. The statistics below capture Harmony DC PCS's submissions and corresponding compliance with the policy. The school has been compliant with procurement submissions since July 1.

- **0 early warning notices** as of August 27, 2018.
- Submissions **Rejected** since July 1, 2017: **0/4**
- Submissions **Received** since July 1, 2017: **4/4**

During the FY 2016-17 reconciliation process, DC PCSB found that that the school submitted one FY 2016-17 contract late. A historical record of the school's procurement contract bidding submissions can be found here:

<https://dcpcsb.egnyte.com/fl/5FkBXFK4tv>.

### **Special Education Compliance**

Charter schools are required to comply with all federal and local special education laws, including the Individuals with Disabilities Education Act<sup>15</sup> (IDEA) and Section 504 of the Rehabilitation Act of 1973.<sup>16</sup>

In SY 2015-16, Harmony DC PCS received several special education complaints pertaining to Individualized Education Program (IEP) meetings and student referrals. The school has not received similar complaints since and has increased its compliance with federal and local special education laws. The following section summarizes Harmony DC PCS's special education compliance from SY 2014-15 to the present.

#### The D.C. Office of the State Superintendent of Education (OSSE) Special Education Compliance Reviews

OSSE monitors charter schools' special education compliance and publishes three primary types of reports detailing these findings: (1) Annual Determinations; (2) On-Site Monitoring; and (3) Special Conditions Reports. OSSE's findings regarding special education compliance for Harmony DC PCS are summarized below.

##### (1) Annual Determinations

As required by federal regulation, OSSE annually analyzes each LEA's compliance with special education compliance indicators, and it publishes these findings in an Annual Determination report.<sup>17</sup> Each year's report is based on compliance data collected from the prior federal fiscal year. For example, in SY 2017-18, OSSE published its 2015 Annual Determination reports (based on the school's 2015-16 performance).

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<sup>15</sup> 20 U.S.C. §§ 1400 *et seq.* See 20 U.S.C. § 1413(a)(5).

<sup>16</sup> 29 U.S.C. § 794.

<sup>17</sup> As required by federal regulation 34 CFR § 300.600(c).

Harmony DC PCS’s Annual Determination compliance performance is detailed in the table below.<sup>18</sup>

Year	Percent Compliant with Audited Special Education Federal Requirements	Determination Level <sup>19</sup>
2014	88%	Meets Requirements
2015	89%	Meets Requirements
2016	70%	Needs Assistance

Harmony DC PCS received a Needs Assistance designation in its 2016 Determination. OSSE recommended that the school’s team seek training and technical assistance to improve overall performance. However, the LEA is not legally required to undertake the recommendations or any actions.

(2) On-Site Monitoring Report

OSSE conducts an on-site assessment of an LEA’s special education compliance with student-level and LEA-level indicators in alignment with its coordinated Risk-Based Monitoring,<sup>20</sup> and publishes its findings in an On-Site Monitoring Report. Annually, OSSE assigns a risk designation to each LEA based on several criteria, including its IDEA Part B performance,<sup>21</sup> which OSSE then uses to determine if an LEA will receive on-site monitoring.<sup>22</sup> LEAs are responsible for being 100% compliant with student-level indicators and LEA-level indicators on On-Site Monitoring Reports.<sup>23</sup>

As of August 2018, OSSE had not conducted an On-Site Monitoring of the school since it began operation.

(3) Special Conditions Reports

OSSE submits reports to the U.S. Department of Education’s Office of Special Education Programs (OSEP) three times annually, detailing statewide compliance in three areas: (1) Initial Evaluation timeliness;<sup>24</sup> (2) Reevaluation timeliness; and (3)

<sup>18</sup> See Annual Determination reports, attached to this report as Appendix E.

<sup>19</sup> IDEA requires OSSE, as the State educational agency (SEA), to make determinations annually about the performance of LEAs. OSSE is required to use the same categories that the United States Department of Education, Office of Special Education Programs (OSEP) uses for state determinations as outlined in Section 616(d) of IDEA. These categories are: Meets Requirements, Needs Assistance, Needs Intervention, and Needs Substantial Intervention.

<sup>20</sup> See <https://osse.dc.gov/publication/risk-based-monitoring-guidance>.

<sup>21</sup> Part B of IDEA applies to students ages 3-22.

<sup>22</sup> The type of monitoring an LEA will receive varies depending on its designation as a “high,” “medium,” or “low risk” sub-grantee. An on-site monitoring visit will occur for LEAs classified as “high” risk.

<sup>23</sup> If OSSE determined an LEA was less than 100% compliant with a student-level indicator that could not be corrected retroactively, OSSE would identify the point of noncompliance as an LEA-level violation and give the LEA 365 days to correct the finding.

<sup>24</sup> Starting with SY 2017-18, the District of Columbia is no longer under special conditions with OSEP for Initial Evaluations. Moving forward, OSSE will only be required by OSEP to submit Special Conditions reporting on

Secondary Transition requirements (for students at age 16 and up). Harmony DC PCS is evaluated in adhering to Initial Evaluation timeliness and Reevaluation timeliness. The outcomes are detailed in the tables below.

Not applicable (N/A) indicates that OSSE did not conduct a review for the listed compliance area during the specified time-frame for the school. The school has no identified areas of noncompliance.

<b>Special Conditions Reporting Period – April 2014 through March 2015</b>			
	<b>August 1 Report (April 1 – June 30)</b>	<b>November 1 Report (July 1 – September 30)</b>	<b>May 1 Report (October 1 – March 31)</b>
<b>Initial Evaluation Timeliness</b>	N/A	N/A	N/A
<b>Reevaluation Timeliness</b>	N/A	N/A	N/A

<b>Special Conditions Reporting Period – April 2015 through March 2016</b>			
	<b>August 1 Report (April 1 – June 30)</b>	<b>November 1 Report (July 1 – September 30)</b>	<b>May 1 Report (October 1 – March 31)</b>
<b>Initial Evaluation Timeliness</b>	N/A	N/A	N/A
<b>Reevaluation Timeliness</b>	N/A	N/A	N/A

<b>Special Conditions Reporting Period – April 2016 through March 2017</b>			
	<b>August 1 Report (April 1 – June 30)</b>	<b>November 1 Report (July 1 – September 30)</b>	<b>May 1 Report (October 1 – March 31)</b>
<b>Initial Evaluation Timeliness</b>	N/A	N/A	N/A
<b>Reevaluation Timeliness</b>	N/A	N/A	N/A

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statewide Reevaluation and Secondary Transition. Initial evaluation data will still be periodically reviewed for compliance and included in Public Reporting for Annual Performance Reports (APRs). For the purposes of this report, Initial Evaluations are included since OSSE reported on this area of compliance in the past.

Special Conditions Reporting Period – April 2017 through March 2018			
	August 1 Report (April 1 – June 30)	November 1 Report (July 1 – September 30)	May 1 Report (October 1 – March 31)
Initial Evaluation Timeliness	N/A	N/A	N/A
Reevaluation Timeliness	N/A	N/A	Compliant

Child Find Monitoring Report

“Child find” is a set of policies, procedures, and public awareness activities designed to locate, identify, and evaluate children who may require special education and related services. Each LEA must have policies and procedures in effect to ensure that all children with disabilities in need of special education and related services, regardless of severity of disability, are identified, located, and evaluated. As a result of the D.L. v. District of Columbia<sup>25</sup> special education litigation, in SY 2017-18 OSSE audited every LEA’s identification rate of enrolled students receiving special education services under IDEA against the 8.5% threshold established in the case. OSSE also conducted desktop reviews of all LEA child find policies to ensure that identification rates were not the result of inappropriate policies and procedures.<sup>26</sup> Based on this review, OSSE determined if an LEA’s identification rate and child find policies were compliant with IDEA and local law. LEAs deemed out of compliance were required to submit to OSSE their revised child find policies and proof of staff training. OSSE will continue child find monitoring moving forward, but it will not conduct this extensive review again in SY 2018-19.

In the updated Child Find review process, OSSE reviews LEA identification rates of students eligible for special education and LEA Child Find policies during the Spring of each school year. Based on this review, OSSE determines whether the LEA is out of compliance due to a low identification rate, its Child Find policy and procedures, or both. OSSE states in its notification letter to the LEA the result of its review and, if required, what actions the LEA is required to take to be deemed compliant.

During SY 2017-18, OSSE found that Harmony DC PCS identified 14.9% of its students eligible for special education, which is above the District’s 2017-18 identification rate of 8.5%. Further, OSSE reviewed Harmony DC PCS’s Child Find policy, practices, and procedures. The results of the focused monitoring activities were sent to the LEA’s leader.<sup>27</sup> Upon

<sup>25</sup> D.L. v. The District of Columbia (Case No. 1:05-cv-01437), 860 F.3d 713 (DC Cir. 2017)

<sup>26</sup> For more information, see OSSE’s “Dear Colleague” letter on key IDEA requirements related to D.L. v. District of Columbia at <https://osse.dc.gov/publication/dear-colleague-letter-key-idea-requirements-related-dl-v-district-columbia>.

<sup>27</sup> Please find the Child Find Focused Monitoring Report for Harmony PCS attached as Appendix F.

review, OSSE determined that the LEA is compliant with Child Find requirements and no further action is required.

#### Hearing Officer Determination (HOD) Implementation Review

OSSE manages and oversees compliance through the HOD Tracker (formerly called the Blackman Jones database) that tracks the timely implementation of actions required by HODs. As of August 2018, no HODs have been issued against Harmony DC PCS.<sup>28</sup>

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<sup>28</sup> HODs are the written decision issued as a result of a due process complaint that resulted in a hearing. Most complaints are withdrawn for any number of reasons, including settlement. Not all outcomes are required to be tracked. For the purpose charter reviews, DC PCSB reports only on HODs that resulted in a finding of noncompliance against the LEA.

## **SECTION THREE: FISCAL MANAGEMENT AND ECONOMIC VIABILITY**

### **Introduction**

The SRA requires DC PCSB to revoke a school's charter if DC PCSB determines that the school:

- Has engaged in a pattern of nonadherence to generally accepted accounting principles (GAAP);
- Has engaged in a pattern of fiscal mismanagement; and/or
- Is no longer economically viable.<sup>29</sup>

DC PCSB has assessed Harmony DC PCS's financial performance by reviewing the school's previous audited financials and DC PCSB's Financial Analysis Review (FAR) reports, dating from FY 2013 through FY 2017. DC PCSB also reviewed the school's unaudited financials for FY 2018 and incorporated this data when relevant. For the purpose of this report, DC PCSB used the FY 2017 FAR Report's "meets expectation" ranges to compare the financial strength of individual measures. The ranges were established where the upper end of the range was the "target" for financial performance and the lower end was the "floor." Schools performing at or above the established targets are determined to be in a strong financial position for the specific metric being assessed. When schools' metrics fall below the established floors, they are further reviewed to determine whether this poses financial concerns. DC PCSB assesses the school's financial condition holistically in order to determine whether operations are adequately managed, sustainable, and economically viable.

<b>KEY for Fiscal Management and Economic Viability Charts</b>	
<b>No Shading</b>	<ul style="list-style-type: none"><li>▪ Within an average, financially healthy range based on the FAR and general finance principles.</li></ul>
<b>Red</b>	<ul style="list-style-type: none"><li>▪ Falling within a range which is cause for concern based on the FAR and general finance principles. Though this does not necessarily show fiscal mismanagement on the part of the school, it indicates that this specific measure fell below the targets that DC PCSB considers financially sound.</li></ul>

### **Summary of Findings**

Harmony DC PCS's financials, particularly its liquidity, have been challenged by persistently low enrollment. Its financial audits confirm the school has adhered to GAAP and has adequate internal controls. The school has not engaged in a pattern of fiscal mismanagement. However, philanthropic support is essential to fund the school's turnaround, and, in the long run, enrollment growth is required to ensure the school is economically viable.

At the beginning of the review period, the school had negative net assets, meaning its liabilities exceeded its assets, which was a source of concern to DC PCSB. Since then, the

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<sup>29</sup> D.C. Code § 38-1802.13(b).

school has generated surpluses each year and ended FY 2018 with net assets of \$200K. The school's FY 2018 enrollment of 94 students produced a surplus for FY 2018 due to a significant private donation which is also forecast to be a source of revenue through FY 2020.<sup>30</sup> According to the unaudited FY 2018 financial statements, total revenues have continued to grow, up 25% from FY 2013. While strong cost management has allowed the school to generate surpluses despite declines in enrollment, liquidity remains an area of concern. Since its opening, the school has relied on a line of credit to fund operations. While private donations may mitigate the need for this line of credit in the near-term, this is likely to expire in FY 2021.

### **Financial Overview**

Overall, the school has exhibited adequate financial performance. While the school has been challenged to grow enrollment, costs have been managed so as to enable the school to generate surpluses since FY 2016. Adjusted for the impact of the line of credit, however, liquidity—measured by unrestricted cash balances and number of days of cash on hand—has been an area of concern. The following table provides an overview of Harmony DC PCS's financial information between FY 2015 and FY 2018. Despite failure to grow enrollment, the school has built a Net Asset Position of \$200K, which shows indications of a significantly stronger financial position than in 2015.

<b>Financial Highlights (\$ in 000s)</b>				
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018*</b>
<b>Maximum Enrollment<sup>31</sup></b>	216	288	360	408
<b>Audited Enrollment</b>	66	105	97	94
<b>Total Revenue</b>	\$1,900	\$2,157	\$2,069	\$2,372
<b>Surplus/(Deficit)<sup>32</sup></b>	(\$32)	\$200	\$7	\$25
<b>Unrestricted Cash Balances</b>	\$75	\$202	\$203	\$378
<b>Number of Days of Cash on Hand<sup>33</sup></b>	15	39	38	61
<b>Net Asset Position<sup>34</sup></b>	(\$32)	\$168	\$175	\$200
<b>Primary Reserve Ratio<sup>35</sup></b>	(2%)	9%	9%	7%

\*Based on unaudited financials

<sup>30</sup> Letter from Jason Yagei, Chief Executive Officer, Charter School Solutions, to Board of Directors of Harmony DC PCS, attached to this report as Appendix G.

<sup>31</sup> Maximum Enrollment represents the largest possible number of students for which the school may receive public funding. It may be higher than the school's targeted or budgeted enrollment but provides a good proxy for the school's enrollment expectations over time.

<sup>32</sup> Surplus / (Deficit) is total revenue minus total expenses.

<sup>33</sup> Number of Days of Cash on Hand equals unrestricted cash and cash equivalents divided by daily operating expenses (which equals annual operating expenses divided by 365 days). It is a measure of the school's ability to pay debts and claims as they come due.

<sup>34</sup> Net Asset Position equals total assets minus total liabilities.

<sup>35</sup> Primary Reserve Ratio equals total net assets, less intangible assets, divided by total annual expenses.

## Fiscal Management

Based on DC PCSB’s assessment of the school’s liquidity, debt burden, and cost management, the school has shown evidence of adequate fiscal management: the school has adequate ability to service new debt; costs are effectively managed; and the internal control environment appears to be strong. However, liquidity is a source of concern. These areas are discussed further below.

### Liquidity

Liquidity						
	Floor	Target	2015	2016	2017	2018*
<b>Current Ratio</b>	0.7	1.0	0.4	0.7	0.8	1.3
<b>Number of Days of Cash on Hand**</b>	15	45	15	39	38	61

\* Based on unaudited financials

\*\* See table below adjusted for line of credit

Liquidity refers to the school’s ability convert assets to cash in order to meet its immediate financial obligations, particularly in the short-term. DC PCSB measures liquidity by assessing two metrics, the Current Ratio<sup>36</sup> and Days of Cash on Hand,<sup>37</sup> as well as considering the school’s solvency.

**Current Ratio:** The current ratio divides a school’s current assets by its current liabilities. “Current” means being available or coming due within the next year. The school’s current ratio has consistently been below the target of 1.0, as low as 0.4 in 2015, which was its first year operating. Since then, the liquidity has steadily shown improvements year over year. The most recent audited financials (FY 2017) indicate a current ratio of 0.8, with the unaudited FY 2018 financial statements showing improvements above the target at 1.3.

**Days of Cash on Hand:** This measure determines how many days of expenses a school can meet with the cash it has in the bank. Similar to current ratio, this measure has consistently been below the target of 45 days but has improved over time. However, it should be noted that the school largely relies on funds from a line of credit to fund its operations. In 2015, the school drew \$200K on its line of credit that was not fully paid back in 2016, 2017, or 2018. As such, DC PCSB recalculated the Days of Cash on Hand, adjusted for the line of credit below.

Days of Cash on Hand - Adjusted for Line of Credit						
	Floor	Target range	2015	2016	2017	2018*
<b>Days of Cash on Hand</b>	15	45	15	39	38	61
<b>Adjusted for Line of Credit</b>	15	45	(24)	<1	<1	29

<sup>36</sup> A school’s current ratio is its current assets divided by current liabilities.

<sup>37</sup> Days of Cash on Hand is the amount of unrestricted cash and cash equivalents divided by daily operating expenses, excluding depreciation & amortization.

While 45 days is the target for Days of Cash on Hand, DC PCSB identifies measures below 15 days to be an indicator of concern. If a school maintains less than 15 days of cash on hand it will be less likely to sustain should unexpected expenses or delays in income occur. The school has consistently been above the 15-day threshold, but primarily due to drawing on the line of credit. FY 2018 appears to be the first year that the school has been able to generate sufficient cash on hand to exceed the 15-day threshold without reliance on the line of credit. This is primarily driven by additional private donations that have helped the school. It is crucial for the school to reach its sustainable enrollment targets or secure additional private donations in order for the school to continue operating once the donation expires in 2021.

Solvency: The final measure of liquidity is solvency,<sup>38</sup> which considers the school's overall ability to pay outstanding obligations, including amounts due to vendors, employees, and lenders if the school's charter were to be revoked. Should the DC PCSB Board vote to close Harmony DC PCS, the school likely would not be able to meet its operating obligations, including estimated closure costs, and the school would have a modest shortfall in meeting obligations due to vendors and employees. Based on audited financial information from FY 2017, this shortfall would have been approximately \$200k, with unaudited FY 2018 results showing a more modest shortfall of \$80k.

#### Debt Burden

Debt Burden								
	Floor	Target	2013	2014	2015	2016	2017	2018*
<b>Debt Ratio</b>	0.9	0.5	N/A	N/A	1.1	0.7	0.7	0.7
<b>Debt Service Coverage Ratio</b>	1.0	1.2	N/A – metric introduced in FY 2016			N/A – No outstanding debt to service		

\* Based on unaudited financials

Based on DC PCSB's assessment, there are no current concerns related to Harmony DC PCS's debt burden. DC PCSB reviews two ratios related to debt management—the debt ratio<sup>39</sup> and the debt service coverage ratio (DSC).<sup>40</sup>

Debt Ratio: In FY 2015, the school's first year operating, Harmony DC PCS was highly leveraged with liabilities greater than total assets (e.g., a debt ratio above 1.0), which is well beyond the established floor of 0.9. Since then, the debt ratio has improved to 0.7 in 2017, with the unaudited financials for FY 2018 reflecting similar performance.

<sup>38</sup> Except when the school owns a facility, solvency equals unrestricted cash plus receivables with a high probability of collection, minus liabilities and closure expenses.

<sup>39</sup> Debt Ratio equals the total liabilities divided by the total assets.

<sup>40</sup> Debt Service Coverage (DSC) Ratio equals Earnings Before Interest, Depreciation, and Amortization divided by the sum of scheduled principal payments and interest paid (not including balloon payments).

Debt Service Coverage Ratio: The debt service coverage ratio compares a school's current year operating surplus with the interest and principal due on its debt. Harmony DC PCSB does not have outstanding debt requiring serving, therefore, the ratio is not applicable.

Cost Management

<b>Components of Expenses (\$ in 000s)</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Salaries and Benefits</b>	\$913	\$1,004	\$1,122
<b>Direct Student Costs</b>	\$374	\$261	\$213
<b>Occupancy Expenses</b>	\$454	\$423	\$439
<b>General Expenses<sup>41</sup></b>	\$192	\$263	\$289

<b>As a Percent of Expenses</b>				
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>FY 2017 Sector Average</b>
<b>Salaries and Benefits</b>	47%	51%	54%	62%
<b>Direct Student Costs</b>	19%	13%	11%	10%
<b>Occupancy Expenses</b>	23%	22%	21%	16%
<b>General Expenses</b>	10%	13%	14%	10%

The tables above provide an overview of the school's spending decisions. Occupancy costs are above the sector average, as the school leases space to accommodate higher enrollment levels. Salaries and benefits as a percentage of expenses are well below sector averages, which may impact teacher retention in the long term.

Internal Controls

At the highest level, internal controls are processes assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies.

Audits of Harmony DC PCS establish that the school has adhered to GAAP. The school's auditors issued unmodified audit opinions for all years and there were no material weaknesses identified in internal controls over financial reporting or compliance. Based on this assessment, Harmony DC PCS appears to have an adequate internal control environment.

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<sup>41</sup> DC PCSB has worked with the Financial Oversight Task Force to revise definitions of cost categories, including combining Office Expenses and General Expenses beginning in FY 2016. Other category definitions have also changed over time.

Internal Controls			
	2015	2016	2017
<b>Modified Statement Opinion.</b> The auditor issues an opinion letter on the basic financial statements. An <i>unmodified</i> opinion means the auditor is satisfied professionally that the statements present fairly the financial position of the school and the results of operations. Should there be areas of doubt, the opinion may be <i>modified, adverse, or disclaimed</i> .	No	No	No
<b>Material Weakness.</b> A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the school's financial statements will not be prevented or detected and corrected in a timely manner.	No	No	No
<b>Statement Non-Compliance.</b> The auditor tests for compliance with certain provisions of laws, regulations, contracts, and grant agreements. Non-compliance could have a direct and material effect on the determination of financial statement amounts.	No	No	No
<b>Modified Program Opinion (Uniform Guidance).</b> When expenditures of federal funds are greater than \$750,000, the auditor performs an extended review and issues an opinion letter on compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the school's major federal programs. A <i>modified opinion</i> indicates instances of non-compliance.	No	No	No
<b>Program Material Weakness (Uniform Guidance).</b> In planning and performing the audit of major federal programs, the auditor considers internal control over compliance with the requirements of applicable laws, regulations, contracts, and grants. A material weakness in internal control indicates that there is a reasonable possibility of material non-compliance with a requirement of a federal program that will not be prevented, or detected and corrected, on a timely basis.	No	No	No
<b>Findings &amp; Questioned Costs.</b> The auditor discloses audit findings that are important enough to merit attention by those charged with governance, with documentation of corrective action plans noting the responsible party.	0	0	0
<b>Unresolved Prior Year Findings.</b> The auditor discloses prior year audit findings that have not been corrected.	No	No	No
<b>Going-Concern Issue.</b> The auditor indicates that the financial strength of the school is questioned.	No	No	No
<b>Debt-Compliance Issue.</b> The audit discloses that the school was not in compliance with certain debt covenants. A debt-compliance issue may prelude insolvency.	No	No	No

### **Economic Viability**

Considering earnings, cash flows, reserves, and trends in both enrollment and revenue, DC PCSB staff has few concerns about Harmony DC PCS's economic viability, but finds that the school's long-term economic viability may be in danger if the school's enrollment continues to decrease.

(\$ in 000s)	Floor	2015	2016	2017	2018*
<b>Surplus/(Deficit)</b>	<0	(\$32)	\$200	\$7	\$25
<b>Earnings before Depreciation and Amortization</b>	<0	\$26	\$282	\$105	\$113

\* Based on unaudited financials

#### Earnings and Operating Cash Flow

One measure of economic viability is whether a school runs a surplus—put simply, whether revenues exceed expenditures. While healthy schools can occasionally run deficits, in most years they do not. Earnings before Depreciation and Amortization (EBIDA) removes major non-cash items from the earnings calculation and is an indicator of whether the school has generated positive cash for the year.<sup>42</sup>

(\$ in 000s)	Floor	Target	2015	2016	2017	2018*
<b>Net Asset Position</b>	\$ 0	N/A	(\$32)	\$168	\$175	\$200
<b>Primary Reserve Ratio</b>	0%	25 %	(2%)	9%	9%	7%

\* Based on unaudited financials

Harmony DC PCS had positive EBIDA in every year of the review and surpluses each year except 2015, its first year of operations.

#### Net Asset Position

Net Asset Position measures a school's assets less its liabilities. DC PCSB would be concerned with net asset reserves below zero, which was the school's financial position in FY15. As described above, the school's net assets have continued to increase as a result of the generated operating surpluses each year.

#### Primary Reserve Ratio

The Primary Reserve Ratio divides net assets by a school's total expenses to measure net assets relative to the size of the school. The Primary Reserve ratio has grown commensurately with net assets, from -2% in 2015 to 9% in 2017. In 2018, the unaudited financials indicate a decline in the Primary Reserve ratio to 7%, but this slight decrease has not changed DC PCSB's assessment. As the school continues to grow Net Assets and operations, the ratio is expected to increase over time.

#### Enrollment and Revenue Trends

The final measures of economic viability are trends in enrollment and revenues. Enrollment trends provide information about a school's ability to attract students and receive DC and Federal funds for operations. Stable or increasing enrollment and revenue indicate that a school is likely to remain financially stable, barring extraordinary circumstances.

<sup>42</sup> EBIDA is the change in net assets plus depreciation and amortization.

As noted below, Harmony DC PCS enrollment has declined for the last two years. In its first year operating, 2015, its enrollment was 66 students. The following year, its enrollment increased over 50% to 105, but as of 2018, enrollment is back down to 94 students. Unless the school is able to grow enrollment, its long-term economic viability is an area of concern. As such, DC PCSB recommends the following condition for Harmony DC PCS be included as part of an FCAP:

- Audited enrollment for Harmony DC PCS must meet/exceed 104 students in FY 2019, 114 students in FY 2020, and 124 students in FY 2021.

DC PCSB will monitor enrollment and overall financial condition of the school. Failure to meet enrollment targets will require the school to submit written plans to increase enrollment as well as operating budgets based on lower enrollment levels.

<b>Enrollment over Time</b>				
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Enrollment</b>	66	105	97	94
<b>Growth in Enrollment</b>		59%	(8%)	(3%)
<b>Total Revenue</b>	\$1,900	\$2,157	\$2,069	\$2,372
<b>Growth in Revenues</b>		14%	(4%)	15%