



2014-15 Charter Renewal Report

Paul Public Charter School

December 15, 2014

DC Public Charter School Board
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TABLE OF CONTENTS

RENEWAL DECISION	1
STAFF RECOMMENDATION AND KEY FINDINGS	1
SCHOOL OVERVIEW	3
SECTION ONE: GOALS AND ACADEMIC ACHIEVEMENT EXPECTATIONS	6
SECTION TWO: COMPLIANCE WITH CHARTER AND APPLICABLE LAWS	11
SECTION THREE: FISCAL MANAGEMENT AND ECONOMIC VIABILITY	15

RENEWAL DECISION

On December 15, 2014, the District of Columbia Public Charter School Board (“PCSB”) voted 5-0 to approve the renewal application of Paul Public Charter School (“Paul PCS”) and renew the school’s charter for a second fifteen-year term, on the condition that the school conduct a Qualitative Assurance Review of its special education programming, and develop and execute an Action Plan based on the identified areas of concern.

STAFF RECOMMENDATION AND KEY FINDINGS

After reviewing the renewal application¹ submitted by Paul PCS, as well as the school’s record established by PCSB, PCSB staff concludes that Paul PCS meets the standard for charter renewal set out in the District of Columbia School Reform Act of 1995, D.C. Code §§ 38-1802 *et seq.* (the “SRA”).

In July 2013, the school adopted PCSB’s Performance Management Framework (“PMF”) as its goals and academic achievement expectations (“academic expectations”). The following standard for goal attainment is detailed in the school’s amended charter agreement:

Paul PCS will be deemed to have met its goals and academic expectations if it attains:

- Annually consistent improvement in PMF performance in the 2010-11, 2011-12, 2012-13 and 2013-14 school years, with no score below 40% in 2012-13 or 2013-14 (the two academic years preceding Paul PCS’ 15th year of operation); **and/or**
- A PMF score of at least 45% in both the 2012-13 and 2013-14 school years.²

In the summer of 2014, the Office of the State Superintendent of Education (“OSSE”) notified Paul PCS that it received a complaint alleging the school violated testing protocol, which, if true, would jeopardize the integrity of the school’s 2013-14 middle school (sixth through eighth grade) DC Comprehensive Assessment System (“CAS”) results, and that further investigation was warranted. OSSE conducted an investigation and confirmed that there had been a breach of test administration protocol. Based on this finding, OSSE invalidated the test scores for all students in grades 6-8. Subsequently, OSSE conducted a wrong-to-right erasure analysis. According to OSSE officials, the findings will be made public shortly, but PCSB has been informally told that the test administration protocol violation likely involved erasures of stray marks, and that there was no evidence that there were any abnormal number of wrong-to-right erasures.

Due to the tampering with the test booklets, OSSE will likely not issue official 2014 DC CAS or Median Growth Percentile (“MGP”) results for Paul PCS’s grades 6-8 for the 2013-2014 school year. These are

¹ See Paul PCS renewal application, attached to this report as Appendix A.

² See 2013 Amended and Restated Charter Agreement, attached to this report as Appendix B.

two essential components of the PMF, together comprising 80% of a school's overall score. Without these data, PCSB was unable to calculate an official 2014 PMF scorecard for the middle school. However, using Paul PCS's unverified 2014 proficiency data and its 2013 MGP score (normally, a school's MGP is calculated using two years of academic data), PCSB has found that the school would have achieved a 61.0% on the 2013-14 PMF.

The effects of OSSE's decision not to release all of Paul PCS's relevant data reach beyond its 2013-14 PMF scorecard – its affects the school's renewal. As agreed to in the school's 2013 charter amendment, the standard for the school meeting its goals and academic expectations included the school meeting certain performance standards on the 2013-14 PMF.

The intent of PCSB's policy regarding adopting the PMF as a school's goals and academic expectations is that only schools showing improvement on the PMF indicators, or schools achieving a certain benchmark score (in Paul PCS's case, this benchmark was 45%) will be considered to have met their goals and academic achievement expectations. Paul PCS's PMF performance has far exceeded this 45% benchmark each academic year since 2010-11, the first year the PMF was published. In 2013-14, despite missing data points, the school still far exceeded this 45% standard. As such, PCSB staff finds that the school has met its goals and academic achievement expectations.

There are also compliance standards for renewal – PCSB finds that Paul PCS met these standards. It did not commit a material violation of the law or its charter. However, PCSB staff has concerns about the school's special education compliance. Paul PCS is dependent on DC Public Schools ("DCPS") to ensure its special education program is operating in compliance with all applicable laws. As such, the school's special education compliance performance is, for the most part, reported by OSSE as part of DCPS's overall compliance performance, and disaggregated compliance data specific to Paul PCS students is limited. However, the compliance data available to PCSB is troubling – the school was noncompliant in the majority of indicators assessed. Based on these concerns, PCSB staff recommended that the school's renewal be conditioned on the school conducting a Qualitative Assurance Review of its special education programming, and developing an Action Plan based on the identified areas of concern. Additionally, PCSB staff urges the school to petition to amend its charter to operate as an independent Local Educational Agency, through which the school will monitor and manage its special education programming apart from DCPS.

Finally, there were several procurement contracts for which the school did not submit all required information over the past four years. It is important that the school remain in full compliance with this requirement during its renewed charter term.

Based on the above determinations, PCSB staff recommends that the school's renewal application be approved, and that the school's charter be renewed for a second fifteen-year term.

CHARTER RENEWAL STANDARD

The standard for charter renewal is established in the SRA: PCSB shall approve a school's renewal application, except that PCSB shall not approve the application if it determines one or both of the following:

- (1) The school committed a material violation of applicable laws 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; or
- (2) The school failed to meet the goals and student academic achievement expectations set forth in its charter.³

Separate and apart from the renewal process, PCSB is required by the SRA to revoke a school's charter if PCSB determines that the school (1) has engaged in a pattern of non-adherence to generally accepted accounting principles ("GAAP"); (2) has engaged in a pattern of fiscal mismanagement; and/or (3) is no longer economically viable.⁴

Given the SRA's standard for charter renewal, as well as PCSB's obligation to revoke a school's charter if it has engaged in the above types of 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 PCSB staff's renewal recommendation. Section Three is an analysis of the school's fiscal performance – included so that in the case that a school is found to have met the standard for charter renewal but has also engaged in fiscal mismanagement, PCSB staff can advise the PCSB Board accordingly.

SCHOOL OVERVIEW

School Overview

In 2000, Paul PCS began operation as a public charter school serving seventh through ninth grades, after the PCSB Board approved the school's petition to convert from a DC public school.⁵ This was the first, and to date, only such conversion of a school in the District of Columbia. In August 2003, the PCSB Board conditionally approved a request from the school to expand to fifth and sixth grades.⁶ The school began serving sixth grade students in 2004-05, but never expanded to the fifth grade.⁷ In 2013-14, the school expanded to serving tenth grade students, and will graduate its first high school class in 2015-16.

³ D.C. Code §38-1802.12(c).

⁴ D.C. Code §38-1802.13(b).

⁵ Paul Community PCS charter agreement, dated April 6, 2000, attached to this report as Appendix C.

⁶ See August 25, 2003 letter from Mr. Thomas P. Loughlin, PCSB Board Chair to Ms. Charlotte Cureton, Paul PCS Head of School, attached to this report as Appendix D.

⁷ See Paul PCS 2004-05 Annual Report, attached to this report as Appendix E.

Paul PCS’s mission is “to educate our students and to develop in them the capacity to be responsible citizens, independent thinkers, and leaders.”⁸ The school offers its “Triple A Program, offering high quality academics, arts, and athletics delivered within the context of a nurturing and structured school environment.”⁹ Additionally, the school’s high school program includes “a focus on global awareness and engagement.”¹⁰ It is part of the International Studies Schools Network, sponsored by The Asia Society, to promote global competence to prepare students to compete in a global economy. With this expanded focus, the school has named its upper school the Paul PCS International High School.¹¹

Paul PCS’s middle school program has achieved Tier 1 status each year the PMF has been published. Its high school completed its first year in 2013-14, and as such, per PCSB policy, was not evaluated according to the PMF. The school did not receive an official PMF score for its middle school program in 2013-14 due to OSSE’s decision not to release the school’s official DC CAS scores or to calculate the school’s student growth percentiles. Instead, PCSB calculated the school’s provisional PMF score using the data it had available, including initial 2014 DC CAS scores that had not been validated by the school or released officially by OSSE. While the PMF typically uses a two-year weighted average to create the MGP score for a given year, PCSB did not have 2014 MGP data. Instead, PCSB used only the school’s 2012-13 MGP (a combined MGP of 54.3%) when calculating the school’s 2013-14 provisional PMF score. If the school’s 2013-14 combined MGP had been calculated, as long as it was over 37.8%, the school would have met the 45% renewal benchmark. Paul PCS’s middle school’s unofficial PMF score is 61.0% when calculated with the school’s combined 2012-13 MGP score and its unvalidated 2013-14 proficiency scores.

Grade Levels	Ward	Year Opened	2013-14 Student Enrollment	2010-11 PMF	2011-12 PMF	2012-13 PMF	2013-14 PMF
6 – 8	4	2000	416	70.9% Tier 1	65.8% Tier 1	70.9% Tier 1	<i>Provisional score of 61.0%</i> ¹²
9 – 10		2013	253	N/A	N/A	N/A	49.1% ¹³

Charter Amendments

In July 2012, Paul PCS submitted to PCSB a petition to amend its charter to offer a high school program, expanding through twelfth grade, and to increase its enrollment ceiling accordingly.¹⁴ PCSB approved this amendment at its September 2012 meeting, conditioned on the school meeting several curriculum and expansion requirements.¹⁵ In July 2013, after finding that the school satisfied the

⁸ See 2013-14 Annual Report; attached to this report as Appendix F.

⁹ See Appendix F.

¹⁰ See Appendix F, p. 9.

¹¹ See Appendix F, p. 11.

¹² Not official score.

¹³ First year of operation, and only ninth and tenth grade, so no tier applied.

¹⁴ See Paul PCS 2012 charter amendment petition, attached to this report as Appendix G.

¹⁵ See PCSB Board Memorandum, dated July 29, 2013, attached to this report as Appendix H.

conditions, PCSB fully approved this amendment, along with the school's request to adopt the PMF as its goals and academic expectations.¹⁶

Previous Charter Reviews

In January 2006, PCSB conducted a charter review of Paul PCS, noting that the school exceeded its math and reading performance goals, and that its "board has performed extremely well in governing the school..." Based on this review, the PCSB Board voted to continue the charter of Paul PCS, on conditions that the school submit (1) an accurate inventory of all school assets; and (2) an updated board roster in compliance with the SRA.¹⁷ Paul PCS fulfilled these conditions, and the PCSB Board voted to grant full charter continuance to the school in July 2006.¹⁸

In February 2010, per PCSB policy in place at the time, PCSB conducted a preliminary charter review of Paul PCS and then conducted a charter review the following year. If a school did not meet all relevant standards in its preliminary review, it would have a year to make improvements before its charter review the following academic year. In Paul PCS's preliminary charter review, PCSB found that the school had met the non-academic and organizational performance standards in place at that time, and while it did not meet the academic standard, it had "demonstrated sustained aggregate growth academically" on the DC CAS.¹⁹ In February 2011, the PCSB Board voted to fully continue the school's charter.²⁰ However, the charter review noted inadequate and inconsistent academic performance among ELL and special education students.²¹

¹⁶ See Attachment H.

¹⁷ See PCSB Board Memorandum, prepared by Carolyn Trice, dated July 17, 2006, attached to this report as Appendix I.

¹⁸ See Appendix I.

¹⁹ See Paul PCS Preliminary Charter Review Findings, prepared by Monique Miller, dated February 26, 2010, attached to this report as Appendix J.

²⁰ See March 11, 2011 letter from Mr. Brian W. Jones to Mr. Jim Moss, attached to this report as Appendix K.

²¹ See Charter Review Analysis, p. 2, attached to this report as Appendix L.

SECTION ONE: GOALS AND ACADEMIC ACHIEVEMENT EXPECTATIONS

The SRA provides that PCSB shall not approve a charter renewal application if the school has failed to meet its goals and student academic achievement expectations (“academic expectations”) in its charter agreement.²² Goals are general aims (usually related to a school’s mission), which may be categorized as academic, non-academic, and organizational, whereas academic expectations are student academic aims measured by assessments.

In 2013, the PCSB Board approved a petition submitted by the school to adopt the PMF as its goals and academic expectations. Consistent with PCSB policy, when a school adopts the PMF, PCSB will assess whether a school has met its goals and academic expectations starting in the school year that the respective PMF was formally adopted by the PCSB Board. As such, the PMF is considered to constitute Paul PCS’ goals and academic expectations starting in school year 2010-11.

The amended charter agreement also states that Paul PCS - International High School, which has been in operation for one year, will not be evaluated as part of this renewal analysis because there is insufficient evidence on the record to assess its performance.

Per PCSB policy and the school’s 2013 amendment, the standard for Paul PCS to meet its goals and academic expectations is:

- Annually consistent improvement in PMF performance in the 2010-11, 2011-12, 2012-13 and 2013-14 school years, with no score below 40% in 2012-13 or 2013-14 (the two academic years preceding Paul PCS’ 15th year of operation); **and/or**
- A PMF score of at least 45% in both the 2012-13 and 2013-14 school years.²³

However, as described above, OSSE’s decision not to release a complete data set of the school’s performance prevents PCSB from calculating an official PMF score for the school. However, with the data it had available (all but the school’s 2013-14 student growth percentile), PCSB found the school scored a 61.0% on the 2013-14. Thus, the school has met its goals and expectations – it has achieved a PMF score of at least 45% in both the 2012-13 and 2013-14 school years. It should also be noted that the school has scored well above 45% on the PMF since it was first published in 2010-11.

The following pages detail the school’s PMF scores over the last four years.

²² SRA §38-1802.12(c)(2).

²³ See 2013 Amended and Restated Charter Agreement, attached to this report as Appendix M.

2010-11 PMF Performance Report

Paul Junior High PCS

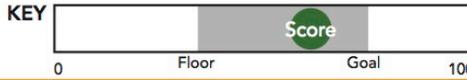
School Performance Report 2010–2011

KEY		0	Floor	Score	Goal	100	Points Earned	Points Possible	Percent of Possible Points
Grades measured: 6–8									
Student Progress (40 points): Academic improvement over time									
Growth on DC-CAS Reading over time							14.7	20.0	73.4%
Growth on DC-CAS Mathematics over time							12.6	20.0	63.1%
Student Achievement (25 points): Meeting or exceeding academic standards									
DC-CAS Reading							5.28	10.0	52.8%
Proficient and Advanced									
Advanced only							1.31	2.5	52.6%
DC-CAS Mathematics							6.66	10.0	66.6%
Proficient and Advanced									
Advanced only							1.40	2.5	56.1%
Gateway (15 points): Outcomes in key subjects that predict future educational success									
Proficient and Advanced 8th grade Mathematics							11.4	15.0	75.9%
Leading Indicators (20 points): Predictors of future student progress and achievement									
Attendance							10.0	10.0	100.0%
Re-enrollment in this school							7.5	10.0	75.0%
TOTAL SCORE				TIER 1			70.9	100.0	70.9%

2011-12 PMF Performance Report

Paul PCS

2012 School Performance Report



Grades measured: 6–8

Points Earned
Points Possible **Percent of Possible Points**

Student Progress (40 points): Academic improvement over time

Growth on DC-CAS Reading over time		$\frac{14.1}{20.0}$	70.3%
Growth on DC-CAS Mathematics over time		$\frac{12.6}{20.0}$	62.8%

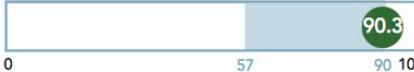
Student Achievement (25 points): Meeting or exceeding academic standards

DC-CAS Reading		$\frac{4.5}{10.0}$	44.8%
Proficient and Advanced			
Advanced only		$\frac{1.0}{2.5}$	40.0%
DC-CAS Mathematics		$\frac{5.8}{10.0}$	58.1%
Proficient and Advanced			
Advanced only		$\frac{1.0}{2.5}$	40.0%

Gateway (15 points): Outcomes in key subjects that predict future educational success

Proficient and Advanced 8th grade Mathematics		$\frac{8.9}{15.0}$	59.0%
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Leading Indicators (20 points): Predictors of future student progress and achievement

Attendance		$\frac{8.1}{10.0}$	81.0%
Re-enrollment in this school		$\frac{10.0}{10.0}$	100.0%

TOTAL SCORE	TIER 1	$\frac{65.8}{100.0}$	65.8%
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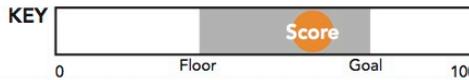
2012-13 PMF Performance Report

Paul PCS – Middle School

2013 School Performance Report

(2012–13)

Grades measured: 6–9

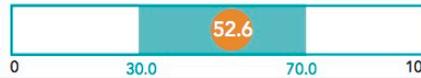


Points Earned
Points Possible

Percent of Possible Points

Student Progress (40 points): Academic improvement over time

Growth on DC-CAS Reading over time



$\frac{11.3}{20.0}$

56.5%

Growth on DC-CAS Mathematics over time



$\frac{11.8}{20.0}$

59.0%

Student Achievement (25 points): Meeting or exceeding academic standards

DC-CAS Reading

Proficient and Advanced



$\frac{4.5}{10.0}$

45.0%

Advanced only



$\frac{1.3}{2.5}$

52.0%

DC-CAS Mathematics

Proficient and Advanced



$\frac{7.3}{10.0}$

73.0%

Advanced only



$\frac{2.0}{2.5}$

80.0%

Gateway (15 points): Outcomes in key subjects that predict future educational success

Proficient and Advanced 8th grade Mathematics



$\frac{12.4}{15.0}$

82.7%

Leading Indicators (20 points): Predictors of future student progress and achievement

Attendance



$\frac{10.0}{10.0}$

100.0%

Re-enrollment in this school



$\frac{7.7}{10.0}$

77.0%

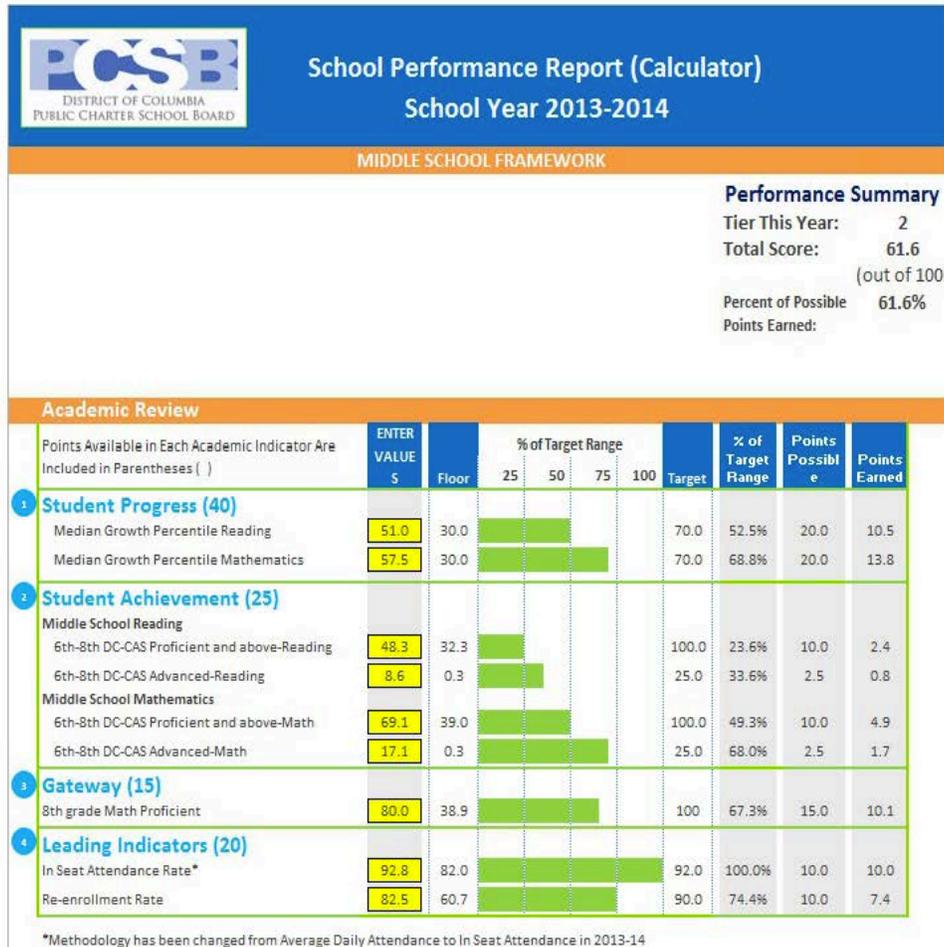
TOTAL SCORE

TIER 1

$\frac{68.3}{100.0}$

68.3%

2013-14 Unofficial and Provisional PMF Performance Report



SECTION TWO: COMPLIANCE WITH CHARTER AND APPLICABLE LAWS

The SRA requires PCSB to determine whether a school has “committed a material violation of applicable laws 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.”²⁴ The SRA contains a non-exhaustive list of applicable laws, and PCSB also monitors charter schools for compliance with additional laws in annual compliance reviews. Below is a summary of the school’s compliance record.

Compliance Item	Description	School’s Compliance Status 2011-12 to present
Fair enrollment process D.C. Code § 38-1802.06	DC charter schools must have a fair and open enrollment process that randomly selects applicants and does not discriminate against students.	Compliant since 2011-12
Notice and due process for suspensions and expulsions D.C. Code § 38-1802.06(g)	DC charter school discipline policies must afford students due process ²⁵ and the school must distribute such policies to students and parents.	Compliant since 2011-12
Student health and safety D.C. Code §§ 38-1802.04(c)(4), 4-1321.02, 38-651	The SRA requires DC charter schools to maintain the health and safety of its students. ²⁶ To ensure that schools adhere to this clause, PCSB monitors schools for various indicators, including but not limited to whether schools: <ul style="list-style-type: none"> - have qualified staff members that can administer medications; - conduct background checks for all school employees and volunteers; and - have an emergency response plan in place and conduct emergency drills as required by DC code and regulations. 	Compliant since 2011-12
Equal employment D.C. Code § 38-1802.04(c)(5)	A DC charter school’s employment policies and practices must comply with federal and local employment laws and regulations.	Compliant since 2011-12
Insurance As required by the school’s charter	A DC charter school must be adequately insured.	Compliant since 2011-12

²⁴ SRA § 38.1802.12(c).

²⁵ See *Goss v. Lopez*, 419 U.S. 565 (1975).

²⁶ SRA § 38.1802.04 (c)(4)(A).

Facility licenses D.C. Code § 47-2851.03(d); D.C. Mun. Regs., tit. 14, §§ 14-1401 et seq.	A DC charter school must possess all required local licenses.	Compliant since 2011-12
Highly Qualified Teachers Elementary and Secondary Education Act (“ESEA”)	DC charter schools receiving Title I funding must employ “Highly Qualified Teachers” as defined by ESEA.	Compliant since 2011-12
Proper composition of board of trustees D.C. Code § 38-1802.05	A DC charter school’s Board of Trustees must have: an odd number of members that does not exceed 15; a majority of members that are DC residents; and at least two members that are parents of a student attending the school.	In 2013, a PCSB audit found that the Board had an even number of members. The school subsequently fixed this issue, and is now in compliance.
Accreditation Status D.C. Code § 38-1802.02(16)	A DC charter school must maintain accreditation from an SRA-approved accrediting body approved by the SRA.	Compliant since 2011-12

Notice of Concern

In June 2012, the PCSB Board issued a notice of concern to Paul PCS “for failure to submit attendance and discipline data on time.”²⁷ This notice was lifted in July 2012.

DC-CAS Test Administration Compliance Issues

In 2012-13, OSSE found that Paul PCS had committed three “moderate” test administration violations: (1) the school’s testing chairperson failed to accurately and consistently follow the required sign-in process for DC CAS test materials; (2) one test administrator gave out stickers to students that were showing their work in their test booklet; and (3) the school’s system for collecting completed testing materials did not meet state requirements.

In the summer of 2014, OSSE notified Paul PCS that it received a complaint alleging the school violated testing protocol, which, if true, would jeopardize the integrity of the school’s 2013-14 middle school (sixth through eighth grade) DC Comprehensive Assessment System (“CAS”) results, and that further

²⁷ See June 22, 2012 letter from Mr. Brian Jones, PCSB Board Chair, to Mr. Jim Moss, Paul PCS Board Chair, attached to this report as Appendix __.

investigation was warranted. OSSE conducted an investigation and confirmed that there had been a breach of test administration protocol. Based on this finding, OSSE invalidated the test scores for all students in grades 6-8 for the 2013-2014 school year. Subsequently, OSSE conducted a wrong-to-right erasure analysis. According to OSSE officials, the findings will be made public shortly, but PCSB has been informally told that the test administration protocol violation likely involved erasures of stray marks, and that there was no evidence that there were any abnormal number of wrong-to-right erasures.

Procurement Contracts

SRA §38-1802.04(c)(1) requires DC charter schools to utilize 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 PCSB all bids received, the contractor selected, and the rationale for which contractor was selected. To ensure compliance with this law, PCSB requires schools to submit a “Determinations and Findings” form to detail any qualifying procurement contract that the school has executed.

Year	Qualifying contracts executed by Paul PCS	Corresponding documentation submitted to PCSB
2010-11	Data unavailable	-
2011-12	5	1
2012-13	2	1
2013-14	2	2

Special Education Compliance

Charter schools are required to comply with all federal and local special education laws, including, among others, the Individuals with Disabilities Education Act²⁸ (“IDEA”) and the Rehabilitation Act of 1973. The following section summarizes Paul PCS’ special education compliance from 2011-12 to the present. Paul PCS elected to operate as a “dependent charter” for federal special education purposes, meaning that DC Public Schools works with Paul PCS as it would a traditional DCPS school to service the school’s special education students.

Because of its dependent charter status, the school’s special education compliance performance is, for the most part, reported by OSSE as part of DCPS’ overall compliance performance, and compliance data specific to Paul PCS students is limited. The following section summarizes Paul PCS’ special education compliance from 2010 to the present.

²⁸ 20 USC §1413(a)(5).

Special Conditions Quarterly Reports

OSSE submits quarterly reports to the U.S. Department of Education’s Office of Special Education Programs detailing District of Columbia LEAs’ compliance in three areas: (1) Initial and Reevaluation Timelines; (2) Early Childhood Transition Timelines; and (3) Secondary Transition Requirements.

In the 2012-13 school year, Paul PCS was noncompliant in conducting two students’ initial evaluations in a timely manner. The same year, the school had one point of noncompliance reevaluating a student in a timely manner. According to OSSE, the LEA has since corrected each of these issues of noncompliance.

DCPS assessment of special education compliance

In July 2014, DCPS chose five special education student records and assessed the school’s compliance with indicators detailed in the table below.²⁹ Each student record was found to be noncompliant in nearly every indicator assessed.

Metric	Number of noncompliant records
The required IEP team members attended students’ IEP meetings.	4 out of 5
The school had a Letter of Invitation (LOI) documented on OSSE’s Special Education Data System (SEDS) 10 or more days prior to the meeting date.	4 out of 5
The date of the LOI matched the date the school held the IEP meeting.	4 out of 5
The student’s SEDS file contained evidence that Extended School Year was determined on an individual basis.	4 out of 5
Related services were documented consistently in SEDS for students who required these students.	2 out of 3 ³⁰

Blackman Jones Implementation Review

With compliance requirements pursuant to the Individuals with Disabilities Education Act (IDEA) and the 2006 Blackman Jones Consent Decree, OSSE manages and oversees the Blackman Jones database that tracks each LEA’s timely implementation of Hearing Officer Determinations (HODs) and Settlement Agreements (SAs).

As of June 2014, the Blackman Jones Database shows Paul PCS has no HODs or SAs.

²⁹ See Paul PCS MSST Desk Audit, attached as Appendix N.

³⁰ Two students did not receive related services.

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

INTRODUCTION

Separate and apart from the standard for charter renewal, the SRA requires PCSB to revoke a school's charter if PCSB determines that the school:

- Has engaged in a pattern of non-adherence to generally accepted accounting principles (“GAAP”);
- Has engaged in a pattern of fiscal mismanagement; and/or
- Is no longer economically viable.

In the following section PCSB has analyzed Paul PCS's financial record regarding these areas.

SUMMARY OF FINDINGS

Paul PCS was identified as an average fiscal-performing school by PCSB in each year from FY2011 to FY2013. Some metrics in FY2014 were greatly improved but audit findings in the most current year will likely leave the School in the middle category again in FY2014 when scores are calculated. The school has no pattern of non-adherence to GAAP, nor are there indications that it engaged in a pattern of fiscal mismanagement. However, three audit findings in FY2014 are cause for some concern.

FINANCIAL OVERVIEW

Paul PCS's enrollment and total revenue increased significantly in FY2014 as Paul PCS high school grew to tenth grade. Local funding grew in line with the increased enrollment, and federal funding doubled in FY2014 due to an award from the DC School Choice Incentive Program,³¹ leading to a \$3.6MM increase in total revenue. Paul PCS's fixed assets and debts also grew significantly in FY2014 as the school began renovations of its facility. While total liabilities quadrupled in FY2014, Paul PCS increased its net asset position to \$7.8MM, as assets grew more than liabilities. The following table provides an overview of the School's financial information over the past four fiscal years.

³¹ The school received \$414,000 to invest in its facilities, \$107,000 to go towards increasing its academic quality, and \$77,000 to assist it in replicating and growing.

	Audit Year			
	2011	2012	2013	2014
Audited Enrollment	559	593	556	669
Total DC Funding Allocation	\$7,377,289	\$8,459,321	\$7,945,661	\$10,286,695
Total Federal Entitlements and Funding	\$1,420,314	\$737,293	\$713,597	\$1,488,892
Unrestricted Cash and Cash Equivalents on 6/30/14	\$427,979	\$688,191	\$101,850	\$362,304
Total Assets	\$8,725,709	\$8,312,013	\$7,961,187	\$15,120,991
Total Current Assets	\$1,575,195	\$4,380,873	\$429,398	\$6,345,447
Total Liabilities	\$2,957,841	\$1,913,140	\$1,796,042	\$7,339,250
Total Current Liabilities	\$2,957,841	\$1,213,636	\$1,740,966	\$3,341,300
Net Asset Position	\$5,767,868	\$6,398,873	\$6,165,145	\$7,781,741
Total Revenues	\$9,199,734	\$9,446,081	\$9,098,638	\$12,735,821
Total Expenses	\$9,348,864	\$8,815,077	\$9,332,366	\$11,119,225
Change in Net Assets	(\$149,130)	\$631,004	(\$233,728)	\$1,616,596

SPENDING DECISIONS

The school ran operating deficits in FY2011 and FY2013, but operated with a large surplus in the most current fiscal year. Prior to FY2014, the School's occupancy expense was consistently at 12-13%. In FY2014, it dropped to 7%, which puts Paul PCS among the lowest rates of DC charter schools. The following table provides an overview of the School's spending decisions over the past four years.

	Audit Year			
	2011	2012	2013	2014
Total Personnel Salaries and Benefits	\$ 6,206,869	\$ 5,783,010	\$ 6,435,575	\$ 8,104,188
Total Direct Student Costs	821,060	\$ 488,636	\$ 712,186	\$ 532,628
Total Occupancy Expenses	\$ 1,208,797	\$ 1,193,744	\$ 1,080,284	\$ 837,549
Total Office Expenses	425,453	\$ 302,836	\$ 314,017	\$ 417,132
Total General Expenses	\$ 686,685	\$ 1,046,850	\$ 790,304	\$ 1,227,728
Operating Surplus/(Deficit)	\$ (149,130)	\$ 631,004	\$ (233,728)	\$ 1,616,596
	as a percent of revenue			
Total Personnel Salaries and Benefits	67%	61%	71%	64%
Total Direct Student Costs	9%	5%	8%	4%
Total Occupancy Expenses	13%	13%	12%	7%
Total Office Expenses	5%	3%	3%	3%
Total General Expenses	7%	11%	9%	10%
Operating Surplus/(Deficit)	-2%	7%	-3%	13%

ADHERENCE TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Audits of Paul PCS establish that the School has adhered to GAAP. The auditor expressed unqualified/unmodified opinions on Paul PCS’ financial statements in each of the past four years. However, the school had three audit findings identified in FY2014, with one that was a repeat finding from the prior year. The repeat finding was that Paul PCS failed to file its audited financial statements and data collection form to the federal audit clearinghouse by the deadline. Similarly, another finding in FY2014 was that the School failed to submit financial reports that were due to a grantor. The final finding was the School didn’t maintain all documentation related to expenditures on a federal grant.

The following table provides a summary of audit results for each of the past four fiscal years.

	FY2011	FY2012	FY2013	FY2014
Statement Opinion. Required when auditor finds areas of doubt/questionable matters.	Unqualified	Unqualified	Unqualified	Unmodified
Statement Material Weakness. A deficiency in internal control, indicating a reasonable possibility that a material financial misstatement will not be prevented.	No	No	No	No
Statement Non-Compliance. Auditor tests for compliance with certain provisions of laws, regulations, contracts, and grant agreements.	No	No	No	No
Program Opinion (A133). Review of compliance with federal requirements conducted when school receives \$500K+ in federal funds.	Unqualified	Unqualified	Unqualified	Unmodified
Program Material Weakness (A133). Lack of internal control over compliance with applicable laws, regulations, etc.	No	No	N/A	N/A
Findings & Questioned Costs. Findings important enough to merit attention by those charged with governance, with documentation of corrective action plans noting the responsible party.	0	0	1	3
Unresolved Prior Year Findings. Disclosure of prior audit findings that have not been corrected.	0	0	0	1
Going-Concern Issue. Indicates the financial strength of the school is questioned.	N/A	No	No	N/A
Debt-Compliance Issue. School was not in compliance with certain debt covenants. A debt-compliance issue may prelude insolvency.	N/A	No	No	N/A

FISCAL MANAGEMENT

The school has not engaged in a pattern of fiscal mismanagement. The school consistently receives unqualified/unmodified opinions on its financial statements. While it has received audit findings in the last two years, management has a plan to cure each of them.

ECONOMIC VIABILITY

The school is economically viable. Audited enrollment increased 36% in FY2014, which drove revenue to \$12.7MM. Even with total expenses increasing in FY2014, the school had a \$1.6MM positive change in net assets. The following tables provide a summary of financial results for the past

four fiscal years. Areas of concern (where the school falls outside the norm among DC charter schools) are highlighted where applicable.

Financial Performance

The school has satisfactory financial performance. PCSB assesses a school’s financial performance with three key indicators. The first indicator is a school’s “operating result” – how much its total annual revenues exceed its total annual expenditures. In general, PCSB recommends that a school’s annual operating results be positive. While the school had operating deficits in FY2011 and FY2013, they were relatively small compared to its \$1.6MM surplus in FY2014. Another indicator of a school’s financial performance is its earnings before depreciation (“EBAD”)³², a financial performance measure of profitability before non-cash expenses are included. On this measure the school has been positive in each of the last four years, totaling over \$3MM. The aggregated three-year margin is a long-term measure of fiscal performance that tempers the impact of any single year fluctuations. The school’s three-year margin has been positive in each of the four years and increased to 6.4% in FY2014.

	Indicator of Concern	Audit Year			
		2011	2012	2013	2014
Operating Surplus/(Deficit)	< 0	(\$149,130)	\$631,004	(\$233,728)	\$1,616,596
Earnings Before Depreciation	< 0	\$196,023	\$1,009,008	\$137,565	\$1,994,856
Aggregated 3-Year Total Margin	< -1.5	4.0%	6.3%	0.9%	6.4%

Liquidity

Two indicators of a school’s short-term economic viability are its current ratio³³ and its days of cash on hand.³⁴ A current ratio greater than one indicates a school’s ability to satisfy its immediate financial obligations. The school’s current ratio has been inconsistent over the last four years. The school’s 0.2 current ratio in FY2013 was particularly low, but it increased to 1.9 in FY2014.

A school’s days of cash on hand is an important liquidity measure. Typically, 90 days or more of cash on hand indicates a school can satisfy immediate obligations with cash. Less than 30 days of cash on hand is a liquidity concern. Paul PCS’ cash on hand has been below 30 days for the last four years. While this metric has been a concern in prior years, it is artificially low in FY2014 because the school restricted a significant amount of cash as part of the loan agreements it signed in FY2014 to finance the renovation to its facility. Paul PCS’s unrestricted cash is \$362K and its restricted cash totals just under \$3.5MM. The school has generated positive cash flow from operations in each of the last four years.

³² EBAD is the change in net assets plus amortization and depreciation.

³³ A school’s current ratio is its current assets divided by current liabilities.

³⁴ “Cash on hand” equals unrestricted cash and cash equivalents divided by total expenditures divided by 360 days. It is a measure of the school’s ability to pay debts and claims as they come due.

Overall, despite Paul PCS’ cash on hand of less than 30 days, its liquidity is satisfactory given the significant amount of its investments and restricted cash.

	Indicator of Concern	Audit Year			
		2011	2012	2013	2014
Current Ratio	< 0.5	0.5	3.6	0.2	1.9
Days of Cash On Hand	< 30	16	28	4	12
Cash Flow from Operations	< 0	\$334,728	\$1,384,069	\$735,035	\$1,380,466
Multi-Year Cumulative Cash Flow	< 0	\$219,553	\$427,690	(\$326,129)	(\$325,887)

Debt Burden

A school’s debt ratio³⁵ indicates the extent to which a school relies on borrowed funds to finance its operations, and a ratio in excess of 0.92 is a concern to PCSB. Paul PCS’ debt ratio increased to 0.49 in FY2014 as it took on additional debt, but it is still well below a level of concern. The school’s debt service ratio has been less than 1% in all four years. **Therefore, Paul PCS’s current debt burden does not pose concerns to its economic viability.**

	Indicator of Concern	Audit Year			
		2011	2012	2013	2014
Debt Ratio	> 0.92	0.34	0.23	0.23	0.49
Debt Service Ratio	> 10.0%	0.5%	0.3%	0.1%	0.2%

Sustainability

A school’s net assets³⁶ and primary reserve ratio⁷ demonstrate its sustainability. PCSB recommends that schools accrue net asset reserves equal to three-to-six months of operating expenditures and PCSB would be concerned with net assets reserves below zero. **The school’s metrics demonstrate sustainability, as its net asset position is in excess of eight months and its primary reserves are positive.**

	Indicator of Concern	Audit Year			
		2011	2012	2013	2014
Net Asset Position	< 0	\$5,767,868	\$6,398,873	\$6,165,145	\$7,781,741
Primary Reserve Ratio	< 0.00	0.62	0.73	0.66	0.62

³⁵ Debt ratio equals total liabilities divided by total assets.

³⁶ Net Asset Position equals total assets minus total liabilities.

⁷ Primary Reserve Ratio equals total net assets divided by total annual expenses.