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Executive Director

Chairman Phil Mendelson
Council of the District of Columbia
1350 Pennsylvania Ave, NW Suite 504
Washington, DC 20004

September 09, 2024

RE: Eagle Academy PCS

Dear Chairman Mendelson,

I have received your letter dated Aug 23, 2024. DC PCSB takes our responsibility under the School Reform Act to maintain fiscal oversight of public charter schools very seriously. We are saddened and disappointed Eagle Academy PCS's board made the decision to abruptly relinquish its charter and close, particularly due to the harm it caused its students, staff, and the community. DC PCSB's board intends to review and have -- at an upcoming board meeting -- a discussion about our financial oversight and our lessons learned.

Please see my responses to your questions below.

1. When did the PCSB realize that Eagle Academy's enrollment had dropped more than half, from 838 in 2019 to 412 in 2023? Why didn't this drop, because funding is enrollment-based, put Eagle Academy on financial watch with the PCSB?

DC PCSB's Financial Oversight Practices

As part of our financial oversight work, DC PCSB assesses the finances and operations of every public charter local education agency (LEA) to determine if it has sufficient financial strength for the year plus contingencies. If an LEA has engaged in a pattern of non-adherence to generally accepted accounting principles, has engaged in a pattern of fiscal mismanagement, or is no longer economically viable, the Board is required to close it per DC law.

The financial health and management of public charter LEAs is monitored using three primary tools: (1) the annual Financial Analysis Report (FAR), which provides a comprehensive assessment of the school's financial health, based primarily on audited financial statements; (2) a review of the annual budget of the school's

operations; and (3) a review of interim LEA financial statements, either quarterly or monthly, including a Statement of Financial Position, Statement of Activities, and Statement of Cash Flows. Additionally, public charter LEAs undergo an in-depth review of their financial health and management as part of the review or renewal process every five years.

Timeline of Eagle Academy PCS's Finance and Enrollment Challenges

DC PCSB became aware of Eagle Academy PCS's 412 student enrollment in mid-October 2022 when the preliminary count day numbers became available. In November 2022, DC PCSB requested a revised budget for FY 2023 that reflected the actual number of students instead of the school's originally projected 525 students. DC PCSB received the revised budget in December 2022.

October 2022 was not the first time DC PCSB chose to monitor Eagle Academy PCS more carefully. Eagle Academy PCS has been receiving additional monitoring for several years due to declining enrollment. It is not uncommon for enrollment to change from year to year, and the pandemic impacted some schools more than others. Schools have autonomy to set their budgets and make expenditure decisions to align with their enrollment over time. Despite decreasing enrollment, Eagle Academy PCS was making decisions that improved its financial outlook.

DC PCSB holds a quarterly meeting with its Finance Committee (comprised of the Board's Treasurer, two other Board members, the Executive Director, and representatives of DC PCSB staff responsible for the oversight and monitoring of LEA finances) where it reviews the financial positions of the District's LEAs, with special attention to LEAs on a "Monitoring List" (LEAs whose financial metrics warrant additional attention and oversight from DC PCSB). A memo is read into the public record at a public Board meeting following each Finance Committee meeting that lists the LEAs on the Monitoring List, as well as LEAs now subject to a Financial Corrective Action plan (FCAP). DC PCSB reported at its November 26, 2019 Finance Committee meeting it placed Eagle Academy PCS on its Monitoring List due to a continuation from FY 2019 into FY 2020 of below-target days of cash on hand. This was reflective of a decrease in enrollment from 935 students in FY 2018 to 838 students in FY 2019 and 830 students in FY 2020.

At its May 27, 2021 meeting, DC PCSB's Finance Committee removed the school from its Monitoring List after the school returned its liquidity measures to above target with a \$2.0M property refinancing and increased operating cash flows in FY 2020 and FY 2021, although enrollment decreased to 705 students in FY 2021. Enrollment continued to decline to 526 students in FY 2022, however funding was supplemented with local stabilization funds as well as federal funds.

LEAs whose enrollment is substantively less than budgeted (or their broader financial position declines) are asked to resubmit budgets midyear that more closely align to actual spending. For example, in FY 2024, all LEAs whose financial position deviated more than +/-10% from their initially submitted budget were required to resubmit budgets.

As stated above, DC PCSB learned Eagle Academy PCS's enrollment dropped to 412 in October 2022, which led us to request a revised budget, and we received that budget in December of that year. After reviewing revised statements and budgets, DC PCSB reported at its March 8, 2023 Finance Committee meeting it would not place the school back on the Monitoring List, because it had met DC PCSB's financial targets as of December 31, 2022, except for days of cash on hand of 42 days, just short of the 45-days target. Not being on the Monitoring List does not mean that monitoring ceases, rather that a school's financial position does not raise concerns such that additional layers of formal monitoring are required. In the case of Eagle Academy PCS, DC PCSB continued to keep a close watch on the school's finances.

At its June 15, 2023 Finance Committee meeting, DC PCSB again placed the school on its Monitoring List after receiving the school's FY 2023 Q3 unaudited financial statements that revealed only 12 days of cash on hand as of March 31, 2023, well under DC PCSB's 30-day floor. In conversations with the school, DC PCSB learned that the school's latest cash forecast was to end FY 2023 with only 18 days of cash on hand. The school attributed the cash dip to a temporary delay in receiving ESSER II and ESSER III reimbursements and the school's recent payoff of a \$1.5M loan it was unable to refinance due to rising interest rates.

2. When did the PCSB realize that despite the enrollment drop cited in question 1, Eagle Academy had not substantially reduced its operating costs? If funding drops but costs don't, there will be operating losses. Because of this dynamic, why didn't the PCSB require a financial corrective action plan last year? Or this January when the Board issued a notice of fiscal concern due to the late filing of a financial report?

DC PCSB focused on the school's operating costs in greater detail after receiving the school's FY 2023 audited financial statements on January 22, 2024; until then the school's operating costs had not been out of line with its operating revenues based on the school's unaudited financial statements. Up until that time, the school experienced significant temporary revenue boosts from local and federal pandemic support that more than offset the UPSFF revenue impact from the declining enrollment. Throughout our monitoring, DC PCSB staff saw multiple avenues for the school to improve its overall financial health and outlook.

Timeline of Actions Taken Between June 2023 through July 2024

- **June 2023 (SY 22-23):** Eagle Academy PCS was placed on DC PCSB's financial Monitoring List. In our review of the school's finances, we noticed several concerning metrics. Enrollment declined more steeply than the school's expense model and expected grant funding did not materialize. When we inquired, Eagle Academy PCS attributed low days of cash on hand to the timing of OSSE's ESSER III grant approval and stated that \$2.1M of revenue had not been collected at the end of Q3 on March 30, 2023.
- **September 2023 (SY 23-24):** The school's FY 2023 Q4 unaudited financial statements submitted to DC PCSB showed that the school ended FY 2023 with \$2.3M in working capital, a current ratio of 1.9 (above DC PCSB's 1.0 target), and 23 days of cash on hand, an improvement over the previously forecasted 18 days of cash on hand. The FY 2023 unaudited financial statements reported a \$0.7M decrease in net assets. With the school's ample working capital and current ratio, the increase in days of cash on hand, and FY 2024 budgeted financial indicators above DC PCSB targets, it would have been premature to require a financial corrective action plan (FCAP) at that time.
- **December 2023 (SY 23-24):** Eagle Academy PCS's financial position declined at a moderate pace. The school was short of its budgeted enrollment by approximately 40 students. DC PCSB staff continued to monitor the LEA's finances monthly. We gave Eagle Academy PCS feedback on actions it should consider, including downsizing staff and rightsizing expenses. Eagle Academy PCS assured us it was taking measures to rightsize expenses to match current enrollment demands and to increase future enrollment with the support of EdForward grant funding. We did not propose an FCAP on January 17, 2024 at our FY 2024 Q1 Finance Committee meeting because we had not yet received the FY 2023 audited financial statements that revealed more concerning issues. At the time of the Q1 review, the school's working capital was healthy, and forecasted days of cash at year-end for FY 2024 were above target.
- **January 2024 (SY 23-24):** Eagle Academy PCS requested extensions on submission deadlines for audited financials, and then missed the extended deadlines. This resulted in DC PCSB issuing an Early Warning Notice. An Early Warning Notice is a notice sent to schools via email when submission deadlines are missed, inaccuracies found, or schools are otherwise non-compliant. Despite how serious its name sounds, an Early Warning Notice is a fairly routine notification and not generally indicative of larger issues for the vast majority of LEAs.

We received Eagle Academy PCS's audited financial statements on January 20, 2024. This audit revealed many more concerning facts. The auditor cited significant deficiencies in internal controls and financial reporting, requiring audit adjustments having a \$1.4M negative impact on net assets. As a result, we began addressing the school's challenges more forcefully. DC PCSB gave routine feedback on metrics that Eagle Academy PCS should focus on changing, including the need to downsize staff. Our staff believed Eagle Academy PCS could pivot to improve its financial position. Eagle Academy PCS informed us it laid off staff in December 2023 and cut some contracts, and planned for more staff cuts in January 2024. We attributed the instances of financial difficulties to the then-CEO's inattention to Eagle Academy PCS's financial health and delays in rightsizing expenses. Eagle Academy PCS attributed the inattention to the CEO's failing health.

- **February 2024 (SY 23-24):** Staff requested revised budgets and financial statements from the school. Once received, DC PCSB analyzed the documents and followed up with clarifying questions.
- **March 2024 (SY 23-24):** DC PCSB requested explanations for significant FY 2024 Q2 actual-versus-budget variances and received only partial responses.
- **April 2024 (SY 23-24):** DC PCSB's monitoring activities increased dramatically. Eagle Academy PCS reported a risk to its payroll payment prior to receiving the Q4 UPSFF payment. This risk was averted. The school provided its initial draft FY 2025 budget, showing a \$0.2M increase in net assets and ending cash and working capital of \$0.5M and -\$0.7M, respectively. We also learned Eagle Academy PCS had not kept its commitment to significantly decrease payroll in the winter. Eagle Academy PCS reported its staff headcount decreased only slightly from the beginning of FY 2024 to April 2024.
- **May 2024 (SY 23-24):** DC PCSB met with Eagle Academy PCS's board to increase their engagement. We focused on Eagle Academy PCS's ability to meet the July 5 payroll, due to ongoing overestimated and/or unsupported cash flows.

Over the course of the month, several leadership changes were made, by Eagle Academy PCS's board, including the removal of the CEO and replacing the existing bookkeeping firm. As a result, the quality of engagement from Eagle Academy PCS's board and new leadership/management increased. We reviewed each of the weekly budgets closely, asked questions, and requested supporting documentation.

The improvements in communication and engagement with the school suggested that prior issues were indeed connected to leadership decisions, specifically issues with the former CEO and lack of oversight by Eagle Academy PCS's board.

- **June 2024 (SY 23-24):** DC PCSB staff determined there was enough information and progress made with the recent significant cuts to suggest Eagle Academy PCS could sustain itself through its next UPSFF payment and be viable through FY 2025. Given these promising signs, and the challenges of a late-summer revocation, we believed a robust financial corrective action plan (FCAP) with strong monitoring was the best path forward for Eagle students and the District of Columbia. This corrective action plan would give us more visibility into and influence over the school's finances, while allowing DC PCSB to build a future case to revoke the school's charter, if ultimately deemed necessary.
- **July 2024 (Between SY's):** The DC PCSB Board approved the FCAP. The corrective action plan made clear to the public that our oversight of and investigation into the school's financial situation was ongoing, and outlined aggressive measures and expectations for the school to improve its internal controls and management practices, while also improving its solvency immediately.

During the week of July 1, Eagle Academy PCS's board informed us they were in talks with two or more LEAs that were interested in acquiring the school. The option that gained most traction was an acquisition by Friendship PCS. The schools began negotiating an asset acquisition agreement, which would address the transfer of assets and liabilities from Eagle Academy PCS to Friendship PCS and guarantee the enrollment of every current Eagle student. Friendship PCS's board voted to extend an offer to acquire Eagle Academy PCS at their board meeting on July 12. Eagle Academy PCS's board approved the proposal on July 18. We made it clear to both LEAs throughout the process that DC PCSB's Board would have to approve the request for it to proceed.

At the beginning of the month, Eagle Academy PCS received a grant reimbursement for \$149K less than it anticipated, leading it to defer a portion of its payroll to high-earning staff. The rationale given to the school for the grant to be \$149K short was to repay an unpaid Small Business Administration loan.

DC PCSB staff shared with our board that, based on our discussions with Friendship PCS and Eagle Academy PCS, both schools believed they would be

able to successfully negotiate an agreement before the start of SY 2024-25, in time for the acquisition to be voted on during DC PCSB's August 19 board meeting and be implemented with the start of the school year.

- **August 2024 (Between SY's):** Since the issuance of the corrective action plan, DC PCSB staff became less confident in Eagle Academy PCS's viability through SY 2024-25 as the school's latest enrollment for FY 2025 was down 52 students from August 2023. Based on Eagle Academy PCS's latest (Aug 1) cash flow budget for FY 2025, Eagle Academy PCS would not meet some of the targets in the corrective action plan, potentially leading DC PCSB staff to recommend charter revocation during SY 2024-25. Based on the enrollment numbers, it began to appear unlikely the school would remain economically viable through FY 2025 without significant additional cuts, as there was minimal cash cushion.

Certain items were definitive about Eagle Academy PCS's financial position. Others remained variable; the variability is important to note because each decision made could move the mark forward or backward substantively enough for the school to meet or miss its corrective action plan targets or Fiscal-Year-End cash requirements.

- **August 12 and 19:** DC PCSB held a public hearing on August 12 in preparation for a board vote on August 19 on the proposed asset acquisition. During the August 12 hearing, the board received a mix of positive and negative public comment on the proposal. At the vote on August 19, the DC PCSB Board voted 4-3 against the acquisition, with board members expressing a variety of concerns. They cited that the accelerated timeline did not allow for robust public debate, desired accountability for Eagle Academy PCS's board, and were concerned with the overall impact on the surrounding neighborhood. In response to concerning testimony from the school, board members asked staff to prepare a case for charter revocation.
- **August 20:** Eagle Academy PCS's board voted to relinquish their charter effectively immediately and informed their community and our board that they would not open on August 26 for the first day of school.

3. When did the PCSB realize that the schools' CEO, Joe Smith, was also the schools' CFO? Why didn't this raise a red flag for the PCSB? Was this raised as a management issue in any of Eagle Academy's recent annual independent financial audits? When the PCSB realized this blending of financial control, what did the Board do about it?

For some public charter schools, budgets are often tight and resources are limited in providing optimal segregation of duties. In such cases, some of the CFO responsibilities are outsourced to work cohesively with the CEO and serve as another pair of eyes.

DC PCSB has been aware that Joe Smith was serving as the school's CEO and CFO since 2017, when the school's Form 990 for FY 2015 was collected. DC PCSB was also aware that the school engaged a CPA senior manager with BDO, fifth largest CPA firm in the world, to advise the school about financial matters. This advisor also participated in the school's board meetings. Consequently, while not recommended, Joe Smith's dual role as CEO and CFO did not on its own raise a red flag. The school's auditor, which served in that capacity each fiscal year since at least FY 2014, did not cite as an internal control weakness the lack of segregation of duties in any of its [audit reports](#).

However, after receipt of the FY 2023 audited financials and as DC PCSB dug deeper into the root causes for the school's financial problems, it became clear that Joe Smith had been struggling with his roles. The school's board acknowledged publicly it had planned over a year ago to split the roles but failed to take the appropriate actions until June 2024.

4. Does the PCSB routinely receive all charter LEA's annual independent financial audits? Does the PCSB routinely look at the auditors' reports of significant deficiencies, material weaknesses, and control deficiencies, for all charter LEA' s? What does the PCSB do with this information?

DC PCSB receives all charter LEA's annual independent financial audits yearly and [publishes them](#) after review. This review includes examination of the significant deficiencies and material weaknesses cited in the audit reports. Typically, for smaller audits such as that of the school, auditors primarily rely on substantive testing of the accounting for selected transactions. When accounting or reporting issues are found, the auditors may cite the specific internal control weaknesses that led to the issues.

When audit reports contain significant deficiencies or material weaknesses, DC PCSB contacts the school for additional details. Depending on the nature and

severity of the issues and whether they have already been remedied, DC PCSB may take any or multiple of the following steps:

- DC PCSB may place the school on its Monitoring List for closer scrutiny.
- DC PCSB may require the school to provide progress reports and a timeline on the steps taken and planned by the school to remediate the issues, which may be part of a corrective action plan established by the school with inputs from its auditor.
- DC PCSB may issue an FCAP or require ongoing evidence that holds the school specifically accountable to remediate the issues.
- DC PCSB reports the issues in the school's financial report card in its annual [Financial Analysis Report \(FAR\)](#), including unresolved prior year findings.

5. For six of the past nine years, Eagle Academy has struggled to keep more than a month of cash on hand, below the PCSB's 30-day floor. In light of this, why didn't the PCSB require a financial corrective action plan sooner, like last year?

DC PCSB expects a school to maintain 45 days of cash on hand throughout the year. We recognize that the practical time to measure this is at the end of each calendar quarter based on unaudited financial statements and at the end of the fiscal year based on audited financial statements. Receipts and disbursements can vary significantly throughout the year, leading to cash peaks and valleys.

Eagle Academy PCS's days of cash on hand was 40 in fiscal year ending 2020, and improved to 67 and 92 days at fiscal years ending 2021 and 2022 following DC PCSB placing the school on the Monitoring List in 2019. Upon refinancing its primary debt in February 2021, its \$4 million compensating balance restricted cash requirement was lifted, thus helping to increase the school's days of cash in FY 2021. DC PCSB removed the school from the Monitoring List as its financial indicators surpassed DC PCSB's targets in FY 2021 Q3. As described in more detail in the response to question 1 above, DC PCSB did not receive the school's FY 2023 audited financial statements until January 2024 that reflected 23 days of cash on hand at the fiscal year end.

As described in more detail in the response to question 2 above, DC PCSB approved a Financial Corrective Action plan in a public meeting on July 10, 2024.

6. What process does the PCSB utilize to monitor out-of-state issues for those charter LEAs that operate in other states? This question is asked in light of the fact that in SY23-24, Eagle Academy began operating a charter school in Clark County, Nevada, with Joe Smith as its CEO (also CEO for Eagle Academy in DC). According to The Washington Post: "The network had a brief stint in Nevada before it was accused of misusing more than \$800,000 in taxpayer dollars,

according to a local news outlet." What did the PCSB do, if anything, in light of the Nevada situation?

When a founding group applies to open a public charter school in the District, DC PCSB conducts a thorough review, including the experience of that founding group in other states. When the founders of Eagle Academy PCS requested a charter more than 20 years ago, they did not have a relationship with the state of Nevada. However, DC PCSB conducts five-year reviews of every LEA's charter. Historically during those reviews, we have not looked at the LEA's work outside the District. We are working with the DC PCSB Board to strengthen our reviews and intend to include the out-of-state activity in those going forward.

Eagle Charter School in Nevada, was governed by a different nonprofit than the DC LEA. According to reports, the school received an overpayment of funds from the state based on overestimated enrollment projections, and they spent that money up front. When enrollment fell short of projections, the state asked for the overpayment back. However, the school was unable to meet the request. The Nevada authorizing board voted to close the school in June 2024. As a result, Nevada's actions to address financial and enrollment issues at a school operated by a different nonprofit did not play a role in our oversight.

7. I believe the PCSB conducted a 20-year review of Eagle Academy in early 2023. Is part of that review an assessment of the LEA's financial viability? If not, why not? Is it correct that PCSB Staff found that the LEA had no financial mismanagement? Please explain.

We included an analysis of Eagle Academy PCS's financial viability in section three of the [20-Year Charter Review of Eagle Academy Public Charter School](#) (P. 36), conducted during SY 2022-23. This review reflects a summary for the review period SY 2017-18 through SY 2021-22. As stated in previous questions and below, the school's financial health was in reasonably good shape until after the review period window.

DC PCSB staff found the LEA did not exhibit a pattern of fiscal mismanagement during the SY 2017-18 through SY 2021-22 review period. None of the audit reports during the review period reported unfavorable findings. Although the review discusses the below-30-days cash on hand at fiscal year end (FYE) 2017, 2018, and 2019, this is attributable to the school's lender requiring the school to maintain over \$4 million in restricted cash, which is not included in the days of cash on hand calculation. In FY 2021, the school significantly strengthened its liquidity by refinancing its notes payable. This resulted in additional cash and working capital

without the compensating balance requirement, bringing the days of cash on hand to 69 days at FYE 2021, 92 days at FYE 2022, and 96 days budgeted for FYE 2023.

8. As I understand it, the first that parents learned the seriousness of Eagle Academy's financial situation was after the PCSB acted July 10, 2024 to require a financial corrective action plan. Why didn't the PCSB require the LEA to explain to its parents sooner about the LEA's financial difficulties? That would have strengthened accountability - namely, by being informed, both the LEA's board of directors and the parent community could have acted sooner to demand corrective financial action. Ironically, that also would have given parents more of a choice than they have had this week to find another school and would have allowed the staff more time to find a job in another school.

It is always our expectation that each LEA communicates often and honestly with its communities. Eagle Academy PCS's board and leadership sent messages to families on July 9, informing them of the school's financial issues and DC PCSB's vote to implement a financial corrective action plan. The school held meetings with staff and families to answer questions. They also informed their families of their decision to relinquish their charter on August 20. In general, DC PCSB communicates directly with families once we initiate charter revocation to explain the process and potential outcomes. In this instance, the Eagle Academy PCS board relinquished its charter prior to DC PCSB initiating revocation.

9. What has the PCSB done to ensure that all Eagle Academy students and staff have a school to attend by the first day of school? How many students and staff have been placed at another school by August 26th?

On Thursday August 22, Friday August 23, and Saturday August 24, our staff and other city agencies hosted enrollment fairs and two job fairs for Eagle Academy PCS families and staff. DC PCSB invited My School DC, DCPS, other public charter LEAs, and community-based organizations with early childhood programs to participate in these enrollment fairs.

DC PCSB Enrollment Specialists are contacting every Eagle Academy PCS family to determine if their student is enrolled in a new school, or if they need additional enrollment assistance.

Eagle Academy PCS staff have interviewed at public charter schools and DCPS and four individuals have been hired, eight have had interviews at other LEAs, and two additional offers have been extended. We continue to work with partners to connect staff to available opportunities. We also include job openings in our weekly

newsletter to the community, and we are making sure to make that section even more robust.

By August 26, 157 out of 362 Eagle Academy PCS students were enrolled in a new school. Of that number, 105 were enrolled in a public charter LEA and 52 enrolled in a DCPS school. Updated enrollment figures are listed below in the next question.

10. (a) Please provide a demographic breakdown of Eagle Academy's student body in SY 23-24, including the proportion of at-risk students, race, and ward residency. (b) Please provide the placement of the students who had enrolled at Eagle Academy for SY 24-25 (i.e., list the schools, and whether DCPS or PCS, in which the students have been placed) and give the date of this data.

Eagle Academy PCS's student body demographics for FY 2024 were as follows.

Race/ Ethnicity	FY 2024
American Indian or Alaska Native	n/a
Asian	n/a
Black or African American	385
Hispanic/ Latino	4
Multiracial	1
Native Hawaiian or Other Pacific Islander	n/a
Unavailable	n/a
White	2
Total	392

At-Risk	FY 2024
At-Risk	257
Not At-Risk	135
Unavailable	n/a
Total	392

As of September 9, 309 out of 362 Eagle Academy PCS students are enrolled in a new school and attending that school. This information is compiled using data from My School DC, OSSE, and Eagle Academy PCS. It is important to note that families will continue to move between schools and LEAs as waitlists shift until count day on October 7.

Of the 309, approximately 104 are enrolled in a DCPS school and 199 in another public charter school. Two students are being homeschooled and four are enrolled outside the District or plan to attend an early childhood program/daycare. We anticipate these numbers increasing in the coming days as families continue to enroll and move about the system as is normal during the first few weeks of school.

Students are currently enrolled at the following LEAs. These numbers are expected to fluctuate in the lead up to count day:

Achievement Prep Academy PCS
AppleTree Early Learning PCS
Cedar Tree Academy PCS
Center City PCS
DC Prep PCS
DC Wildflower PCS
DC Public Schools (across approximately 25 campuses)
Early Childhood Academy PCS
Elsie Whitlow Stokes Community Freedom PCS
Friendship PCS
Global Citizens PCS
Hope Community PCS
I Dream PCS
Ingenuity Prep PCS
KIPP DC PCS
LEARN DC PCS
Lee Montessori PCS
Mary McLeod Bethune Day Academy PCS
Meridian PCS
Rocketship DC PCS
Sela PCS
The Children's Guild DC PCS