



# Public Charter School Audited Financial Statements

## *Guidelines and Expectations*

### **Purpose**

The DC Public Charter School Board ("DC PCSB") requires all DC public charter schools to conduct and submit a financial audit package on an annual basis. These guidelines document DC PCSB's requirements for public charter schools' audited financial statements, which in some cases go above the requirements set by the American Institute of Certified Public Accountants ("AICPA") and the Comptroller General of the United States.

### **Approved Auditor List**

The School Reform Act § 38-1802.04 dictates that public charter schools will select an auditor from an approved list, which is developed jointly by DC PCSB, the Office of the Chief Financial Officer ("OCFO"), and the Office of the State Superintendent for Education ("OSSE") (collectively, "the Committee").

To be considered for the list, the Committee requires that the firm affirm that:

- 1) They will comply with DC PCSB's expectations for financial audits;
- 2) They are a certified public accountant or accounting firm licensed to perform audit work in the District of Columbia;
- 3) They are a member of the American Institute of Public Accountants (AICPA);
- 4) They have experience conducting audits that conform to Generally Accepted Government Auditing Standards (GAGAS) and Generally Accepted Accounting Principles (GAAP) for not-for-profit organizations;
- 5) They have experience conducting a Uniform Guidance compliance audit of federal awards including internal controls over compliance for major programs;
- 6) They have received a rating of "pass" on their most recent peer review, indicating that the firm's system of quality control provides reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, and that this report is provided to the DC PCSB; and
- 7) The firm is not subject to recent disciplinary actions from the PCAOB, the District of Columbia Government, or any applicable Federal, City, or State regulatory agency.

### **Audit Timeline**

Beginning in the first year of operation, public charter schools are responsible for three submissions in conjunction with the audit<sup>1</sup>: the Engagement Letter, the Audit Package, and the Financial Audit Review data submission. If schools anticipate difficulty meeting the established deadline for any of these submissions, they must submit a written

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<sup>1</sup> Audits are not required for the school's planning year.

request to DC PCSB for an extension without penalty. The following chart outlines the deliverable, the submission deadline, and the extension request deadline:

<b>Deliverable</b>	<b>Extension Request Deadline</b>	<b>Submission Deadline</b>
Engagement Letter	August 1	August 15
Audit Package (details below)	November 17	December 1
Supplemental Schedule of Vendors Receiving More Than \$25,000 From the School During the Fiscal Year	November 17	December 1
Financial Audit Review data	November 17	December 1

Deadlines will not be adjusted for holidays or weekends, but schools may choose to submit documents before the deadline. If a public charter school fails to submit any document by the deadline and has not received written approval for an extension from DC PCSB, the school’s submission will be considered untimely.<sup>2</sup>

### **Audit Requirements**

The audit must be conducted in accordance with generally accepted auditing standards established by the AICPA as well as auditing standards in accordance with Generally Accepted Government Accounting Standards (“GAGAS”) issued by the Comptroller General of the United States.

Public charter schools that expend federal funds in excess of the threshold established by the Single Audit Act Amendments of 1996, as amended, must submit an audit of its federal funds in accordance with Title 2, Code of Federal Regulations, Part 200 (“Uniform Guidance”) or the Office of Management and Budget (OMB) Circular A-133, as applicable.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 – *Integrated Framework* has been named as a best practice for federal grants; DC public charter schools’ auditors are encouraged to assess the degree to which the school under audit is improving internal controls to align with the provisions of COSO.<sup>3</sup>

OSSE performs its own residency audit verification and does not require DC public charter schools’ independent auditors to repeat this function.

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<sup>2</sup> Untimely submissions are tracked in each school’s annual Compliance Review Report. A pattern of untimely submissions may make a school subject to a Notice of Concern, as established by DC PCSB’s Data and Document Submission Policy.

<sup>3</sup> See Title 2, Code of Federal Regulations, Part 200 section 303 as well as the 2015 OMB *Compliance Supplement* part 6. For a copy of the COSO, see <http://www.coso.org>.

## **Audit Reports**

### *Audit Package*

A completed audit package shall include the following:

- Statement of Financial Position, Statement of Activities, and Statement of Cash Flows, along with notes to these statements in compliance with AICPA standards;
- Schedule of Expenditures of Federal Awards, including reconciliation to the financial statements, where applicable;
- Schedule of Functional Expenses;
- Schedule of Findings and Questioned Costs, including a Corrective Action Plan;
- Report on Prior Year Findings; and
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*.
- A supplementary schedule listing all vendors that received more than \$25,000 and vendors correct name, the type of work or service(s) performed, and the total amount paid by the school.

If a public charter school meets the requirements for a single audit under the Single Audit Act Amendment of 1996, as amended, or the Uniform Guidance, then the package should also include a Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance or Circular A-133, as applicable.

In cases of specific questions or concerns, DC PCSB may require additional disclosures related to the work performed during the course of the audit, including but not limited to Statement on Auditing Standards (SAS) 114 Post Audit Communication Letter (AU-C 260) and SAS 115 Management Letter (AU-C 265). An auditor that fails to comply with DC PCSB's request is subject to removal from the Approved Auditor List. A school that fails to comply with DC PCSB's request is subject to DC PCSB Board action, including a Notice of Concern.

### *Presentation of Data*

The audited financial statements must be prepared in accordance with the following specifications:

- Statement of Financial Position
  - The statement must include comparative data from the previous year;
  - Assets and liabilities must segregate short-term/current assets from long-term assets;
  - Cash and investments balances must segregate restricted cash and investments from unrestricted cash and investments; and
  - Net assets must be segregated by their unrestricted, temporarily restricted and permanently restricted portions.
- Statement of Activities
  - The statement must include comparative data from the previous year;

- Per pupil payments must be broken into General Education, Categorical Enhancements (SPED, At-risk, etc.) and DC Facilities Allowance on the Statement of Activities;<sup>4</sup>
- Federal awards must be detailed separately from other grant income; and
- Contributed revenue must be broken down into government grants, private donations and grants, and in-kind contributions.<sup>5</sup>
- Supplemental Schedules
  - The audit must include a Schedule of Functional Expenses using DC PCSB's template<sup>6</sup>; and
  - For public charter schools with separate entities which are required to be consolidated under GAAP (e.g., those required for New Markets Tax Credits transactions), the audit must include a consolidating Statement of Activities and Statement of Financial Position by entity.
- Findings
  - When classifying each finding, the auditor must note, as applicable for each finding:
    - Finding Number;
    - Prior Year Finding Number;
    - Federal Program;
    - Catalog of Federal Domestic Assistance ("CFDA") Number;
    - Federal Agency;
    - District Agency; and
    - Compliance Requirement.
  - The (narrative) description of each finding must include:
    - Criteria;
    - Context (as required under the Single Audit Act);
    - Condition;
    - Cause;
    - Effect;
    - Recommendation;
    - Questioned Costs; and
    - Views of Responsible Officials.
- The Supplementary Schedule of Vendors Receiving More than \$25,000 need not be included in the annual financial statement package, but must be submitted to concurrently to DC PCSB:
  - The schedule must include:
    - Correct name of vendor;
    - Type of work performed;

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<sup>4</sup> For ease of readability, these additional disclosures may be presented within the Statement of Activities or as a footnote.

<sup>5</sup> For ease of readability, these additional disclosures may be presented within the Statement of Activities or as a footnote.

<sup>6</sup> This template should be used as a guide, but schools should adjust the template as necessary to reflect its operations, such as adding expense lines for mission-critical but uncommon expenses. DC PCSB may follow up with schools that adjust the template to ensure the school's reporting meets DC PCSB's standards for transparency.

- Amount paid

*Required Notes and Disclosures*

The following notes and disclosures are required:

<b>Note</b>	<b>Required Disclosure Details</b>
<b>Additional Communications</b>	Public charter schools must disclose if they received additional communications from the auditor including an AU-C Section 260 ("Post Audit Communication Letter" as well as any submitted "Management Letter") (formerly SAS-114 and 115 communications). DC PCSB may require schools to submit such additional communications on a case-by-case basis.
<b>Composition of Per Pupil Funding</b>	The audit must include a note that details the revenue composition for per pupil funding. It must segregate the general education revenues from the categorical enhancements (e.g., special education revenue) and facilities funding.
<b>Financing Agreements</b>	The terms of short- or long-term debt (including lines of credit, notes payable, mortgages, revenue bonds or New Markets Tax Credits) should be disclosed, including the interest rate, maturity and the nature of payments over the life of the loan (interest-only, balloons, etc.) Disclosure should include the purpose of the financing (operating expenses, leasehold improvements, building acquisition, etc.) The existence of debt covenants, and the school's compliance with these covenants must also be disclosed.
<b>Lease Terms</b>	For public charter schools that lease facilities, the audit must describe the terms of the lease including, if applicable, the costs incurred for additional services provided by the landlord. If the payment terms are set relative to the DC Facilities Allowance, or result in a rent asset or liability, the audit must disclose this information as well.
<b>Management Organizations</b>	Contracts with Management Organizations for services to the school, including the name of the management organization, the services provided, and the fee paid for services must be disclosed.
<b>Material Changes to the Charter Agreement</b>	The audited financial statements must include a disclosure for schools with material changes to their charter agreement that may have a material effect on the school's financials. These changes include, but are not limited to: expansions; new facilities; closures of programs, facilities, campuses, or grades; and significant reorganizations.
<b>Nature of Restricted Assets</b>	The audit must include a note that describes the purpose and nature of restricted assets. For any restricted assets above \$100,000, the note should include the terms of the restrictions and the counterparties to the transaction.

Note	Required Disclosure Details
<b>Related Party Transactions</b>	The audit must include a note that details all payments to related parties and whether any payments were made outside of the legal contract governing the relationship between the school and its related parties. In addition to the criteria for "Related Party Transactions" established by the AICPA, auditors should also consider Conflicting Interest Contracts outlined in DC PCSB's Procurement Contracts Submission Policy as "Related Party Transactions." <sup>7</sup> The disclosure must detail the amount paid for services provided and for any pass-through payments made to related parties. It must disclose any amendments or changes to the legal agreement governing the relationship between the school and its related parties. Finally, it must also disclose the nature, timing and extent of debts and debt service due to related entities, including management and staff.

**Potential Interventions**

DC PCSB shall review each school's audit for compliance with these requirements. Schools out of compliance with these requirements may be subject to a Notice of Concern or other corrective action. While each school is ultimately responsible for the production of its audit, in some cases, DC PCSB may take corrective action against an auditor for its lack of compliance with these requirements, including removal from the Approved Auditor List.

DC PCSB may conduct a peer and quality control review of any audit submission. The purpose of the review is to determine if the scope of the review and procedures conducted were executed in accordance with professional standards. If an audit fails a peer review, the auditor is subject to removal from the AAL.

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<sup>7</sup> DC PCSB's policy can be found here: <http://www.dcpsb.org/sites/default/files/report/2016-11-21%20Contract%20and%20Minute%20Submission%20Policy%20Revised.pdf>