

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD

Charter Actions Requiring a Vote

- Approve a Charter Application
- Approve a Charter Renewal (15 yrs.)
- Approve Charter Continuance (5 or 10 yrs.)
- Approve a Charter Amendment Request
- Approve a Charter Agreement
- Give a Charter Notice of Concern
- Lift the Charter Notice of Concern
- Commence Charter Revocation Proceedings
- Revoke a Charter
- Board Action, Other _____

Non-Voting Board Items

- Public Hearing Item
- Discussion Item
- Read into Record

Policies

- Open a New Policy or Changes to a Policy for Public Comment
- Approve a New Policy
- Approve Revisions to an Existing Policy

PREPARED BY: Michael Bayuk – Director of Finance

SUBJECT: Open for Public Comment: DC Public Charter School Board Fiscal Year 2021 Financial Analysis Report Technical Guide

DATE: September 20, 2021

Proposal

The District of Columbia Public Charter School Board (DC PCSB) staff recommends its Board vote to open for public comment the Fiscal Year (FY) 2021 Financial Analysis Report (FAR) Technical Guide. A redlined version comparing the Technical Guide to the [FY 2020 FAR Technical Guide](#) may be found in Attachment A. Public comment will remain open from September 20, 2021 until October 18, 2021, with a public hearing on October 18, 2021. The Board is scheduled to vote on the proposal at its meeting on November 15, 2021. Any public comment received during the public comment period will be publicly discussed and taken into consideration prior to the vote.

Written comments may be submitted until October 18, 2021, by mail or email to:

DC Public Charter School Board
3333 14th Street NW, Suite 201
Washington, DC 20010
Public.comment@dcpcsb.org

Background

The School Reform Act requires that DC PCSB revoke the charter of any public charter school (PCS) that (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. Further, each local education agency (LEA) is required to conduct annually a thorough audit of its finances and operations. LEAs must choose a third-party auditor from a list of auditors approved by DC PCSB, the Office of the Chief Financial Officer, and the Office of the State Superintendent of Education. DC PCSB analyzes and summarizes the information in these audits to produce the FAR, which presents consistent and transparent information about LEAs' finances and operations.

Each year, DC PCSB convenes a task force of school leaders, business managers, and charter support organizations to give input into the FAR's methodology, design, and production process.

The most critical section of the FAR is the Financial Report Card for each LEA, including data on the LEA's management organization, if applicable. Additional data tables and narrative commentary on the key trends and opportunities of LEAs' finances provide context and analysis. Each of these is included in more detail within the technical guide, as necessary.

The FAR Technical Guide outlines DC PCSB's process for producing the FAR. It was created so that school leaders, data managers, families, and other stakeholders would understand the FAR's content, methodology, and scope. Each year, DC PCSB considers information gathered during the FAR preparation to inform its decision making for possible changes to the next FAR Technical Guide.

Summary of Revisions

DC PCSB staff has revised the Technical Guide to reflect changes in 1) the DC PCSB vision, mission, and commitment to race, equity, diversity, and inclusion work (REDI); 2) generally accepted accounting principles; 3) generally accepted auditing standards; 4) emphasis and increased clarity surrounding certain key financial indicators; and 5) other information to enhance the reader's understanding. Key revisions are summarized in the following table.

FY 2021 Technical Guide	FY 2020 Technical Guide	Rationale for Change
Recites the recently updated DC PCSB vision, mission, and commitment to REDI	Recites the DC PCSB vision prior to the recent update	The updated vision, mission, and REDI commitment are intended to permeate and inform all activities of DC PCSB and serve as the agency's North Star
Debt Service Coverage Ratio is no longer a key financial indicator	Debt Service Coverage Ratio has been a key financial indicator	Much of the information garnered from this indicator can be obtained through other indicators. This ratio does not consider rent payments, resulting in incomparable and therefore unreliable indicators between LEAs owning versus renting facilities. The inputs to calculate this ratio require several accounting elements not always readily available, requiring extra work for LEAs. Eliminating this ratio will correct the incomparability and reduce burden on LEAs and DC PCSB.
Current Ratio indicator excludes from total current liabilities the next year's scheduled balloon payments to the extent that they are refinanced, or an unconditional commitment is received from a bona fide lender, by December 1 st immediately following the current fiscal year end	Current Ratio indicator does not exclude balloon payments from total current liabilities	LEAs occasionally borrow for construction loans intended to be refinanced shortly after completion. When the debt maturity is less than 12 months following the current fiscal year end, the debt is classified as a current liability, which can significantly lower the current ratio, often below the target. Satisfying this refinancing condition that effectively reclassifies the debt from current to long-term eliminates the temporary downward skewing of the current ratio.

FY 2021 Technical Guide	FY 2020 Technical Guide	Rationale for Change
<p>Working capital, current assets, and current liabilities are required reporting in the aggregate and LEA tables in the FAR; beginning in FY 2021, working capital excludes from total current liabilities the next year's scheduled balloon payments to the extent that they are refinanced, or an unconditional commitment is received from a bona fide lender, by December 1st immediately following the current fiscal year end</p>	<p>Working capital is not specified for reporting, but current assets and current liabilities are required reporting</p>	<p>Working capital, equal to total current assets minus total current liabilities, is a strong indicator of liquidity and has been reported in the FARs since FY 2018, and current assets and current liabilities have been reported from the inception of the FAR. This change memorializes the FAR reporting since FY 2018. Similar to the rationale for change in the current ratio above, which is also commonly referred to as the working capital ratio, the exclusion of refinanced scheduled balloon payments from working capital will eliminate temporary downward skewing.</p>
<p>Primary Reserve Ratio indicator is expected to be above 0.2</p>	<p>Primary Reserve Ratio indicator is expected to be above 0.25</p>	<p>Recent benchmarks for this ratio across the education and not-for-profit industries are generally around 0.2, below which is indicative of financial weakness.</p>
<p>Enrollments, Operations, and Working Capital chart for past five fiscal years or (if fewer) the number of years since the LEA first began operations</p>	<p>Each of these key elements are reported each fiscal year and compared to the prior fiscal year, but not compared to years prior to that or in a chart containing all these key elements</p>	<p>All this information appears in the current or prior FARs. To help the reader more easily understand this information and provide greater context, this standard chart was introduced in the FY 2020 FAR so that trends could be explained without the need to reference prior years' FARs.</p>

FY 2021 Technical Guide	FY 2020 Technical Guide	Rationale for Change
Each LEA financial report card table includes percentage change from the prior fiscal year to the current fiscal year	Not included	Including a column for the percentage change provides more useful information for the reader without the need to manually calculate these percentages from the information in the tables.
Other increases (decreases) in net assets are reported as a separate line item	Not included	In FARs prior to FY 2020, sometimes an LEA's beginning net assets plus its increase (decrease) in net assets do not equal its ending net assets due to other increases (decreases) reported in the LEA's audited financial statements but not in the FAR, consisting most typically of cumulative effect of changes in accounting principles. This line has been added to complete that reconciliation and report what is reported in the audited statements.
Operating Revenues, Operating Expenses, and Operating Income (Loss)	Operating Revenues and Operating Expenses	Operating Income (Loss), equal to Operating Revenues minus Operating Expenses, is a strong indicator of financial performance. Beginning in the FY 2020 FAR, this element is reported to enhance the reader's understanding and not require the reader to manually calculate this element.
Audit Findings longer descriptions	Audit Findings shorter descriptions	This change will align the Audit Findings descriptions in the FAR to the text used in the auditor reports.

FY 2021 Technical Guide	FY 2020 Technical Guide	Rationale for Change
DC PCSB synthesizes information from the audited financial statements, the charter agreement, lease agreements, debt instruments, and other sources without limitation where necessary for clarity	DC PCSB synthesizes information from the audited financial statements and, where necessary for clarity, foundational documents (e.g., charter agreement)	The FY 2020 and prior year FARs often refer to information provided in other documents for greater clarity. This change aligns the Technical Guide with current practice.
Observations include narratives, tables, and/or charts that address listed items, leasing information, and other financial matters of significance	Observations consist of narratives that address listed items	LEA-tailored tables and charts were included in the FY 2020 to improve FAR readability and comprehension. Leasing information and other financial matters of significance have been addressed in the FY 2020 and prior year FARs. This change aligns the Technical Guide with current practice.
DC PCSB will try to incorporate LEA comments in its observations to minimize the need for separate comments	No explicit coordination between the LEA comments and DC PCSB observations	For the reader's benefit and to avoid possible confusion with separate observations and comments, the observations are intended to reflect a unified explanation with broader and deeper context resulting from coordinated collaboration between DC PCSB and LEAs. Notwithstanding this collaboration, DC PCSB will maintain its independent financial oversight, and LEAs are still encouraged to provide comments where the comments are not reflected in the observations.

FY 2021 Technical Guide	FY 2020 Technical Guide	Rationale for Change
Management Organization (MO) and Related Party (RP) details include listed items, MO and/or RP, city, state, relationship explanation, and agreement term	Management Organization and Related Party details include listed items	The additional details in the revised policy have been reported in the DC PCSB Comments section following the MO/RP Report Card in the FY 2019 FAR. This change will ensure these items are reported consistently in the MO/RP table with the other details.

Attachment

Attachment A: FY 2021 FAR Technical Guide (Redlined from FY 2020 FAR Technical Guide)

<p>Date: _____</p> <p>DC PCSB Action: _____ Approved _____ Approved with Changes _____ Rejected</p> <p>Changes to the Original Proposal:</p> <p>_____</p> <p>_____</p> <p>_____</p>
--