

DC PUBLIC CHARTER SCHOOL BOARD

School Financial Oversight Guidance

School Year 2026–27

A guide to DC PCSB's expectations for financial performance, how they are evaluated and communicated with schools, and the criteria supporting these actions.

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A Letter to School Leaders

Dear DC Public Charter School Leaders,

As the city's sole public charter school authorizer, the DC Public Charter School Board (DC PCSB) is committed to ensuring that every public charter school is financially sound and well-positioned to fulfill its mission on behalf of students and families. Strong financial oversight promotes transparency, consistency, and accountability while supporting schools in maintaining long-term fiscal health and organizational stability.

The School Financial Oversight Guidance describes DC PCSB's expectations for financial performance, the KFI's used to assess school financial health, and the processes through which financial performance is reviewed throughout the year. It also identifies how DC PCSB will communicate with local education agencies (LEAs), the range of oversight actions that may occur when concerns arise, and the criteria that inform those actions. The guidance is intended to provide schools with a clear understanding of how financial performance is evaluated and how oversight decisions are made.

Financial oversight is more than a compliance exercise. It is an opportunity to identify potential challenges early, promote constructive dialogue between DC PCSB and school leaders, and support timely action to address emerging risks before they become more significant concerns. By establishing transparent expectations and consistent processes, this guidance is intended to strengthen confidence in the oversight process while preserving the autonomy that is fundamental to public charter schools.

The enclosed guidance outlines DC PCSB's financial oversight framework, including financial indicators, review timelines, communication protocols, and the oversight actions that may result from a school's financial performance. If you have questions about the guidance or the financial oversight process, please contact Joanna Han, Director of School Finance, at jhan@dcpcsb.org.

Together, through transparency, consistency, and shared responsibility, we can strengthen the financial sustainability of DC's public charter sector and ensure schools remain well-equipped to serve students and families for years to come.

With appreciation for your leadership and commitment,



Dr. Michelle Walker-Davis

Executive Director, DC Public Charter School Board

DC PCSB School Financial Oversight Guidance

This School Financial Oversight Guidance describes the processes and activities through which DC PCSB will assess school financial health and financial performance throughout the school year. Through this guidance, DC PCSB aims to foster shared expectations with schools, promoting transparency, consistency, and early collaboration to address financial challenges before they become more significant.

The guidance is divided into five main sections that address various areas of DC PCSB's financial oversight work, described below:

Overview

This section includes background on DC PCSB, its financial oversight responsibilities, and the development of its updated financial oversight policy and KFI. This section also explains the purpose of the School Financial Oversight Guidance, its relationship to the [Financial Oversight Policy](#), and how it will support transparent, consistent, and proactive financial oversight. [Go to this section.](#)

Annual Financial Oversight Cycle

This section includes details about DC PCSB's year-round financial oversight process, including the schedule of routine DC PCSB School Finance Team (SFT) reviews and other reviews by other DC PCSB offices used as part of financial oversight. [Go to this section.](#)

Key Financial Indicators

This section includes details about the KFIs DC PCSB uses to assess economic viability, generally accepted accounting principles (GAAP) noncompliance, and fiscal mismanagement, including what each indicator measures, how it is calculated or assessed, when it is reviewed, and the thresholds that may trigger increased financial oversight or corrective action. [Go to this section.](#)

School Finance Levels of Oversight

This section includes details about how DC PCSB responds when financial performance falls below established KFI floors, including communications with LEAs and the progression from Standard Oversight to Increased Financial Oversight, i.e. placement on the Financial Monitoring List, a Financial Corrective Action Plan (FCAP), and, when necessary, possible charter revocation. [Go to this section.](#)

Financial Analysis Report

This section includes details about DC PCSB's annual Financial Analysis Report (FAR), including how audited financial information and KFIs are used to report on LEA and sector financial performance, and the phased timeline for incorporating the updated KFIs into the FAR. [Go to this section.](#)

Basic information about the DC Public Charter School Board

The DC Public Charter School Board (DC PCSB) monitors public charter school local education agencies (LEAs) on campuses in every ward of the city.

What is DC PCSB's vision?

Every DC student receives a quality education that makes them feel valued and prepares them for lifelong learning, fulfilling careers, and economic security.

What is DC PCSB's mission?

DC public charter schools are environments where all students, especially those in historically marginalized groups, thrive. As DC's charter authorizer, we:

- Approve, monitor, and evaluate schools, with an emphasis on equity and academic excellence
- Create policies and conditions to empower educators to do their best work in service of students
- Actively engage families, schools, and communities to inform our decision-making

DC PCSB's board composition and professional staff

A Board of seven, supported by approximately 50 professional staff, is responsible for the oversight and management of the organization's vision, mission, and work. Board members are nominated by the mayor and confirmed by the DC Council.

In what context does DC PCSB exist?

The [School Reform Act](#) (SRA) requires DC PCSB to conduct a charter review of each school at least every five years. DC PCSB evaluates each school to determine whether it is meeting the charter goals and academic achievement expectations, legal compliance, and fiscal management requirements set forth in the charter agreement. It is the responsibility of the DC PCSB to ensure that, among other things, schools are economically viable, adhere to Generally Accepted Accounting Principles (GAAP), and manage finances effectively. In addition to this, the SRA requires that DC PCSB revoke the charter of any public charter school that (1) has engaged in a pattern of nonadherence to GAAP; (2) has engaged in a pattern of fiscal mismanagement; and/or (3) is no longer economically viable. DC PCSB's financial oversight practices balance the need to identify and proactively address financial risks in a timely manner with its responsibility to preserve school autonomy.

During school year 2025-26, DC PCSB identified the need for effective risk identification and clarity around financial oversight expectations; they engaged a team to conduct a comprehensive landscape analysis of its existing financial oversight practices. Central to this effort is the development of a financial oversight policy, as well as an analysis and

establishment of KFI that provide clear expectations, earlier identification of potential financial concerns, and more consistent decision-making.

How were DC PCSB's financial oversight policy and Key Financial Indicators (KFIs) developed?

The development of DC PCSB's [financial oversight policy](#) and refinement of KFIs began with a landscape analysis that included a review of existing policies and documents; interviews with the School Finance Team, DC PCSB leadership, the Finance Committee and Board, charter leaders across the sector, national experts, and local support organizations; and an examination of finance-related case studies. The analysis revealed a clear need for a more transparent and consistent approach to oversight. Internally, the most significant finding was the absence of clearly defined standards for concepts for economic viability, GAAP noncompliance, and fiscal mismanagement. Externally, charter leaders expressed a desire for greater clarity regarding financial expectations, oversight indicators, and consistency in how oversight decisions are made. The analysis also highlighted an opportunity to build on the sector's willingness to engage constructively and to leverage the expertise of back office support organizations such as EdOps.

In response, DC PCSB established an LEA Financial Policy Working Group of DC PCSB leadership, School Finance Team staff, charter finance and executive leaders, and other sector partners. Through facilitated working sessions, the group reviewed draft policies and indicators, provided practical feedback, and helped refine a framework designed to be transparent, evidence-based, and grounded in the operational realities of the schools it supports.

When and how will DC PCSB implement the financial oversight policy and use the updated Key Financial Indicators (KFIs)?

During the initial implementation period, DC PCSB will work closely with schools to support a consistent understanding of the new KFIs, thresholds, and oversight expectations while refining internal processes as needed. Beginning with subsequent fiscal years, DC PCSB plans to review and update this guidance annually to reflect lessons learned, changes in accounting standards or regulatory requirements, evolving sector conditions, and other improvements that strengthen the effectiveness, transparency, and consistency of financial oversight. DC PCSB will also phase in the updated KFIs to align ongoing financial oversight with the annual FAR process. The updated KFIs will begin to be phased-in for ongoing oversight beginning with the FY 2027 first-quarter financial review submitted by November 2026. While the FY 2026 FAR will continue to rely on the prior KFIs; the FY 2027 FAR will rely on the updated KFIs. FAR guidance, as contained within this document, will be updated each spring beginning in 2027. This [FAQ](#) captures ongoing questions related to the transition. Refer to [Appendix A](#) for a comparison of prior KFIs and updated KFIs.

Annual Financial Oversight Cycle

How does DC PCSB conduct its financial oversight work?

As part of its statutory responsibility to monitor the performance of public charter schools, DC PCSB conducts ongoing financial oversight throughout the year. It includes the routine reviews conducted throughout the fiscal year, which runs from July to June, and the KFIs evaluated during each review. Because different financial information becomes available at different points in the fiscal year, each review focuses on the KFIs that can be assessed using the data made available to DC PCSB as submitted by LEAs in accordance with the [DC PCSB LEA Submission Calendar](#) and [Data and Document Submission Policy](#). Intermittently, DC PCSB may also receive information that may bear influence on the assessment of the LEA's financial performance, such as information related to the LEA's adherence to DC PCSB's Procurement Policy. This information, along with the routine reviews of LEA data submissions, provide a comprehensive, year-round process for monitoring financial health, identifying emerging risks, and ensuring timely and consistent financial oversight.

What does DC PCSB's School Finance Team review?

The SFT reviews the documents and information submitted by LEAs as outlined in the. The SFT completes reviews within approximately 6 weeks of submission deadlines.

What other data does the School Finance Team review?

In addition to routine reviews based on data submitted in accordance with the LEA Submission Calendar, other data is reviewed on an ad hoc basis available intermittently throughout the year, including:

- Notice(s) of Concern (as defined in the [Data and Document Submission Policy](#)) arising from noncompliant submission of items outlined in the [DC PCSB LEA Submission Calendar](#), such as audit engagement letters, audited financial statements, interim unaudited financial statements, IRS Form 990 tax forms, and enrollment budgets and projections.
- Notice(s) of Concern arising from noncompliance with [Procurement Contract Submission Policy](#)
- Notice(s) of Concern arising from the DC PCSB Sector Planning and Compliance reviews
- Finance-related [complaints](#) filed with DC PCSB
- Finance-related criminal charges against the LEA

Key Financial Indicators

What are the Key Financial Indicators (KFIs)?

DC PCSB evaluates school financial health using a defined set of KFIs that provide a transparent, consistent, and evidence-based framework for financial oversight. These indicators establish clear expectations for financial performance and help identify emerging financial concerns before they become more significant. By relying on objective measures, defined thresholds, and consistent decision criteria, the KFI framework promotes predictable oversight decisions while providing schools with a clear understanding of how financial performance will be assessed and how those assessments may inform DC PCSB's oversight actions throughout the year. KFIs are used for both regular monitoring of LEA fiscal performance and for public reports such as the annual FAR ([see the Financial Analysis Report section](#)) .

The updated KFIs were developed through a comprehensive review and engagement process. DC PCSB gathered perspectives from its leadership, School Finance Team, Finance Committee and Board, charter leaders, national experts, and local support organizations on the strengths and limitations of the current oversight framework, including current KFIs, to identify opportunities for improvement. DC PCSB tested the indicators using historical financial data from the DC charter sector, including schools that experienced financial distress or closure, to assess how effectively the indicators provided timely identification of emerging financial challenges. The resulting indicators reflect common practices across the charter sector while being tailored to the unique context and oversight responsibilities of DC PCSB. Updated KFIs will be phased-in beginning with the FY 2027 first-quarter financial review ([Appendix A](#) compares prior KFIs and updated KFIs). DC PCSB plans to release an updated version of this guidance annually in advance of the start of the new fiscal year. Annual updates will incorporate guidance for the forthcoming fiscal year's FAR.

Is there a simple way to view the KFIs?

[Appendix C](#) presents DC PCSB's updated KFIs and the decision framework that links measurable financial conditions to escalating levels of oversight. Indicators are organized around the three core areas of economic viability, GAAP noncompliance, and fiscal mismanagement. Additionally, the table includes the underlying calculation or evidence source, identifies what DC PCSB's School Finance Team will be reviewing for assessment, and establishes threshold values that define the corresponding level of oversight and communication – ranging from Standard Oversight to a Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List, a FCAP, and, where appropriate, Revocation. Together, the indicators are intended to create a transparent, consistent, and evidence-based framework that enables earlier identification of financial concerns, clearer expectations for schools, and more objective, predictable oversight decisions.

A DETAILED VIEW OF THE KEY FINANCIAL INDICATORS

The following section describes each KFI used by DC PCSB to assess school financial health. Each KFI description includes: a general description, the question considered, evidence reviewed, the formula, threshold, and related notices¹ and consequences. Appendix C provides a consolidated view of KFIs, which are further described below in accordance with the core area of financial oversight to which they align.

KFIs by Core Area

Economic Viability	Three-Year Weighted Enrollment Variance, Days of Cash on Hand, Two-Year Average Adjusted Operating Surplus, Current Ratio, and Debt Covenant Violations
Nonadherence to GAAP	Audit opinions
Fiscal Mismanagement	Reporting Noncompliance & Procurement Policy violations, Debt Covenant Violations, Conflict of Interest and/or fraud or theft, and Material Weaknesses or Significant Deficiencies

Economic Viability

Three-Year Weighted Enrollment Variance

Because charter school funding is largely determined by student enrollment, enrollment is a fundamental driver of an LEA's financial performance. This KFI measures enrollment trends over time to identify sustained changes that may affect an LEA's ability to generate sufficient recurring revenue to support ongoing operations. By weighing enrollment across three years, the indicator reduces the impact of one-time enrollment fluctuations and provides a more reliable picture of an LEA's underlying financial sustainability. It aims to identify whether persistent enrollment decreases indicate that a school may need to adjust its expenses and/or seek new revenue streams, increasing the risk of future financial instability if corrective action is not taken.

- Question: Does the LEA's enrollment trend suggest sustained revenue?
- Reviews: Unaudited Enrollment (current FY), Two years of audited enrollment reviews (previous FY) (October), and Three years of audited enrollment reviews (current and previous FY) (January)
- Formula:²
 - Three-Year Weighted Enrollment Variance = (Current year enrollment change*0.60) + (Prior year's enrollment change*0.25) + (Prior prior year's enrollment change*0.15)

¹ Notices of Increased Financial Oversight and FCAP Notices will identify the violation and the evidence needed for remediation and removal from the Monitoring List.

² Enrollment for LEAs undergoing structural changes known to DC PCSB that may affect enrollment trends will be considered on a case-by-case basis. Examples of such changes include the opening or closure of facilities and/or campuses, school reorganization, school expansion, and other changes affecting approved grade levels served or the enrollment ceiling.

- Enrollment Change = percentage change in unaudited or audited enrollment compared to the preceding year's audited enrollment
- Threshold (Floor):
 - Standard Oversight Status
 - Performance: >-20%
 - Result: Standard oversight
 - Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List:
 - Performance: ≤-20%
 - Result: Notice of Increased Financial Oversight
 - FCAP:
 - Performance: Notice of Increased Financial Oversight not satisfied
 - SFT Recommendation: FCAP
 - Revocation:
 - Performance: FCAP not satisfied
 - SFT Recommendation: Revocation

Days of Cash on Hand (DCOH)

DCOH measures the number of days an LEA can continue to pay its operating expenses using its available cash reserves. This indicator provides insight into an LEA's short-term liquidity and its ability to meet financial obligations without interruption. DC PCSB expects LEAs to maintain at least 30 days of cash on hand. Schools operating below this threshold indicate increased financial risk and warrant additional review or oversight.

- Question: Can the LEA cover operating expenses?
- Formula:³ Days of Cash on Hand = (Unrestricted Cash and Cash Equivalents⁴ + Short-Term Investments⁵) ÷ ((Operating Expenses – Total Depreciation and Amortization) ÷ 365)
- DC PCSB Reviews: Q2 financial reviews (February), Q3 financial reviews (May), FY budget reviews (August), Q4 financial reviews (September), Q1 financial reviews (November), FY Audit (December)
- Threshold (Floor):
 - Standard Oversight Status
 - Performance: ≥30 DCOH
 - Result: Standard oversight
 - Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List:
 - Performance: <30 DCOH
 - Result: Notice of Increased Financial Oversight
 - FCAP:
 - Performance: Notice of Increased Financial Oversight not satisfied
 - SFT Recommendation: FCAP

³ This formula excludes traditional depreciation and amortization but does not make further adjustments for non-cash items, such as those introduced by lease accounting standard changes, in order to maintain a standardized and comparable metric across historical reporting periods. LEAs with significant finance leases or operating leases containing material rent escalations should be aware that this indicator may not fully reflect their actual cash position in a given period, and DC PCSB may consider supplemental context when reviewing results for such schools.

⁴ Unrestricted Cash and Cash Equivalents, defined by GAAP, are cash, money market funds, and other financial instruments that have immediate liquidity.

⁵ Short-term investments, defined by GAAP, are investment instruments that are expected to mature within a year of the balance sheet date.

- Revocation:
 - Performance: FCAP not satisfied
 - SFT Recommendation: Revocation

Two-Year Average Adjusted Operating Surplus Margin (2yAOS Margin)

2yAOS Margin measures an LEA's ability to generate resources to sustain its operations over time. It gives a clearer view of an organization's day-to-day financial standing and acts to gauge their financial stability. The measure is adjusted for items that may obscure underlying financial performance, and it is averaged across two years to smooth short-term operational fluctuations and reduce the influence of one-time or out of norm surpluses or deficits. 2yAOS Margin serves as a leading indicator of emerging financial stress.

- Question: Is the LEA financially sustainable?
- Formula:
 - 2-Yr Average AOS Margin = (AOS Margin (Yr X) + AOS Margin (Yr X-1)) / 2
 - AOS Margin = (Change in Net Assets Without Donor Restrictions + Depreciation & Amortization – Finance Lease Principal +/- Noncash items (charges/credits)) ÷ (Operating Revenues - In-kind donations)
- Reviews: FY Audit (December)
- Threshold (Floor):
 - Standard Oversight Status
 - Performance: >-3%
 - Result: Standard oversight
 - Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List:
 - Performance: ≤-3% AND a significant decline in DCOH over the 2-year period⁶
 - Result: Notice of Increased Financial Oversight
 - FCAP:
 - Performance: Notice of Increased Financial Oversight not satisfied or Going Concern Issue
 - SFT Recommendation: FCAP
 - Revocation:
 - Performance: FCAP not satisfied
 - SFT Recommendation: Revocation

Current Ratio

Current Ratio measures an LEA's ability to meet its short-term financial obligations using its current assets. This indicator provides insight into the school's short-term liquidity and whether it has sufficient resources to cover liabilities due within the next 12 months. DC PCSB considers a ratio below 0.9 a possible indication of liquidity concerns and cause for additional review or oversight.

- Question: Can the LEA fulfill short-term obligations?

⁶ An LEA with a 2yAOS ≤-3% may remain under Standard Oversight if DC PCSB determines that the LEA maintains a stable cash position.

- Formula: Current Ratio = Total Current Assets ÷ Total Current Liabilities⁷
- Reviews: 2nd Q financial reviews (February), 3rd Q financial reviews (May), 4th Q financial reviews (September), 1st Q financial reviews (November), and FY Audit (December)
- Threshold (Floor):
 - Standard Oversight Status
 - Performance: ≥ 0.9
 - Result: Standard oversight
 - Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List:
 - Performance: < 0.9
 - Result: Notice of Increased Financial Oversight
 - FCAP:
 - Performance: Notice of Increased Financial Oversight not satisfied
 - SFT Recommendation: FCAP
 - Revocation:
 - Performance: FCAP not satisfied
 - SFT Recommendation: Revocation

Debt Covenant Violations⁸

Debt Covenant Violations indicate that an LEA has failed to comply with one or more financial or operational requirements established in its debt agreements with lenders. Because debt covenants are designed to monitor financial health and protect against increased credit risk, a violation may signal emerging financial challenges or reduced financial flexibility. DC PCSB reviews reported debt covenant violations as an indicator of potential financial stress and may conduct additional review or oversight to understand the underlying causes, the lender's response, and the LEA's plan to return to compliance.

- Question: Does the LEA's lender view the organization as financially viable?
- Reviews: FY Audit reviews (December)
- Threshold (Floor):
 - Standard Oversight Status
 - Performance: No Debt Covenant Violations
 - Result: Standard oversight
 - Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List:
 - Performance: 1 or more Debt Covenant Violations (unwaived)
 - Result: Notice of Increased Financial Oversight
 - FCAP:
 - Performance: Notice of Increased Oversight not satisfied
 - SFT Recommendation: FCAP
 - Revocation:
 - Performance: FCAP not satisfied

⁷ If Total Current Liabilities include a balloon payment due within the next 12 months, DC PCSB may exclude the payment from the Total Current Liabilities should the loan be extended, refinanced, or fully repaid at the time of calculation. For year-end calculations, the extension, refinancing, or repayment of the loan must be closed or completed by December 31 following the fiscal year-end. In the case of extension or refinance, the new maturity terms must be assessed as satisfactory by DC PCSB. For quarterly calculations, DC PCSB will assess the LEA's progress toward securing an extension or refinancing and may exclude the payment if progress is deemed satisfactory in respect to the balloon payment date.

⁸ This KFI relies on Debt Covenant Violations as a lender's indication of a threat to a school's viability

- SFT Recommendation: Revocation

Nonadherence to Generally Accepted Accounting Principles (GAAP)

Audit Opinions⁹

Audit Opinions provide an independent assessment of whether an LEA's financial statements are fairly presented in accordance with GAAP and, when applicable, whether the LEA has complied with federal program requirements under the Uniform Guidance. Because audit opinions reflect the auditor's professional judgment regarding the reliability of an LEA's financial reporting and compliance with applicable requirements, they are an important indicator of financial health and sound financial management.

- Question: Are the LEA's financial statements, taken as a whole, presented fairly, in all material respects, in conformity with the applicable financial reporting frameworks?
- Reviews: FY Audit reviews (December)
- Threshold (Floor):
 - Standard Oversight Status
 - Performance: Unmodified opinions
 - Result: Standard oversight
 - Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List:
 - Performance: N/A
 - Result: Notice of Increased Financial Oversight
 - FCAP:
 - Performance: Modified (other than Adverse) opinion¹⁰
 - SFT Recommendation: FCAP
 - Revocation:
 - Performance:
 - adverse opinion or
 - three consecutive independent audits resulting in modified opinions other than an adverse opinion; or
 - failure to make satisfactory progress, as defined in an FCAP, toward remedying independent audit findings that resulted in a modified opinion.
 - SFT Recommendation: Revocation

Fiscal Mismanagement

Reporting Noncompliance & Procurement Policy Violations

Reporting Noncompliance & Procurement Policy Violations may indicate weaknesses in an LEA's financial governance, internal controls, or adherence to established financial policies and procedures. Because these issues can reflect patterns of fiscal mismanagement that are not readily apparent from financial statements alone, DC PCSB monitors findings related to

⁹ Audit "opinions" for this indicator do not include "findings" e.g. material weaknesses or significant deficiencies.

¹⁰ Audits resulting in a Disclaimer of Opinion will be evaluated on a case-by-case basis, with consideration given to the specific circumstances identified by the auditor.

financial reporting, compliance, procurement practices, and other finance-related concerns as part of its overall assessment of fiscal stewardship. When identified, these issues may prompt additional review to determine their significance, underlying causes, and whether additional oversight or corrective action is warranted.

- Question: Has the LEA's fiscal mismanagement and non-compliance risked the organization's financial standing?
- Reviews:
 - SFT issued financial compliance related Notice(s) of Concern (intermittent)
 - SFT reviews of DC PCSB Data, Operations, and Finance Procurement Policy-related Notice(s) of Concern (intermittent)
 - SFT issued financial-related Notice(s) of Concern resulting from a complaint filed with DC PCSB (intermittent)
- Threshold (Floor):
 - Standard Oversight Status
 - Performance: <2 Notices of Concern within most-recent 12 months
 - Result: Standard oversight
 - Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List:
 - Performance: 2 or more Notices of Concern within most-recent 12 months
 - Result: Notice of Increased Financial Oversight
 - FCAP:
 - Performance: Notice of Increased Financial Oversight not satisfied
 - SFT Recommendation: FCAP
 - Revocation:
 - Performance: FCAP not satisfied
 - SFT Recommendation: Revocation

Debt Covenant Violations¹¹

Debt Covenant Violations occur when an LEA is not in compliance with the requirements of its debt agreements. These violations may relate to financial covenants, such as failing to meet required financial performance metrics, or reporting covenants, such as failing to provide required financial information to a lender. Financial covenant violations can be an early indicator of financial distress and potential insolvency and reporting covenant violations may indicate weaknesses in financial management or internal controls. DC PCSB monitors both types of violations as indicators of potential fiscal mismanagement and may conduct additional review to understand the underlying causes, the lender's response, and the LEA's corrective actions.

- Question: Has the LEA's fiscal mismanagement and non-compliance risked the organization's financial standing?
- Reviews: FY Audit reviews (December)
- Threshold (Floor):
 - Standard Oversight Status
 - Performance: No Debt Covenant Violations
 - Result: Standard oversight

¹¹ This KFI relies on Debt Covenant Violations as an indication of possible ineffective oversight of public funds by a school's board or school and/or leadership.

- Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List:
 - Performance: 1 or more Debt Covenant Violations (unwaived)
 - Result: Notice of Increased Financial Oversight
- FCAP:
 - Performance: Notice of Increased Oversight not satisfied
 - SFT Recommendation: FCAP
- Revocation:
 - Performance: FCAP not satisfied
 - SFT Recommendation: Revocation

Conflict of Interest (COI) Violations and/or Fraud or Theft

Conflict of Interest (COI) Violations and Fraud or Theft may indicate significant weaknesses in an LEA's governance, ethical standards, internal controls, or stewardship of public resources. Because unmitigated or unrecognized conflicts of interest, fraud, theft, and other finance-related misconduct can expose an LEA to substantial financial, legal, and operational risk and undermine public trust, DC PCSB monitors evidence of these issues from a variety of oversight and reporting sources. When identified, these issues may warrant additional review to determine their nature and severity, assess the effectiveness of corrective actions, and determine whether increased oversight or other action is appropriate.

- Question: Has the LEA board and/or leadership materially violated its COI policy, its COI provisions in the D.C. Code, and/or its fiduciary duty?
- Reviews:
 - DC PCSB COI violation Notice(s) of Concern
 - FY Audit disclosures of COI violation and/or fraud/theft committed by the LEA (December)
 - Finance-related Notice(s) of Concern resulting from a complaint filed with DC PCSB (intermittent)
 - Annual 990 filings disclosures of fraud or theft committed by the LEA (Spring)
 - SFT issued financial-related Notice(s) of Concern resulting from finance-related criminal charges committed by the LEA (intermittent)
- Threshold (Floor):
 - Standard Oversight Status
 - Performance: No findings
 - Result: Standard oversight
 - Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List:
 - Performance: 1 or more finding within most-recent 12 months
 - Result: Notice of Increased Financial Oversight
 - FCAP:
 - Performance: Notice of Increased Financial Oversight not satisfied
 - SFT Recommendation: FCAP
 - Revocation:
 - Performance: FCAP not satisfied
 - SFT Recommendation: Revocation

Material Weaknesses or Significant Deficiencies Findings¹²

Material Weaknesses, Significant Deficiencies, and Unresolved Prior Audit Findings provide important insight into the effectiveness of an LEA's internal controls over financial reporting and compliance with applicable laws, regulations, contracts, and grant requirements. Because these findings may indicate that material errors, noncompliance, or control failures are not being prevented or identified in a timely manner, they can signal elevated financial and operational risk. DC PCSB reviews audit findings related to material weaknesses, significant deficiencies, and unresolved prior-year findings to assess the strength of an LEA's financial management practices and determine whether additional oversight or corrective action is warranted.

- Question: Does the LEA's audit note findings of Material Weaknesses and/or Significant Deficiencies?
- Reviews: FY Audit reviews (December)
- Threshold (Floor):
 - Standard Oversight Status
 - Performance: No Material Weakness and <3 consecutive audits with the same Significant Deficiency
 - Result: Standard oversight
 - Notice of Increased Financial Oversight, i.e. placement on the Financial Monitoring List:
 - Performance: 3¹³ or more consecutive audits with the same Significant Deficiency
 - Result: Notice of Increased Financial Oversight
 - FCAP:
 - Performance: 1 Material Weakness or Notice of Increased Financial Oversight not satisfied
 - SFT Recommendation: FCAP
 - Revocation:
 - Performance: FCAP not satisfied
 - SFT Recommendation: Revocation

¹² In planning and performing the audit of major federal programs (Uniform Guidance audit), the auditor considers internal control over compliance with the requirements of applicable laws, regulations, contracts, and grants. A material weakness in internal control indicates that there is a reasonable possibility of material noncompliance with a requirement of a federal program that will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control indicates noncompliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

¹³ This threshold accounts for the timing of the annual audit cycle. Because audit findings are generally not available until December, an LEA may have limited opportunity to fully address a newly identified deficiency before the subsequent fiscal year is already underway. As a result, the same deficiency appearing in a second consecutive audit may not, on its own, indicate that the LEA failed to take appropriate corrective action. Its persistence into a third consecutive audit provides stronger evidence that the underlying control weakness has not been timely or effectively resolved and may warrant additional oversight or corrective action.

School Finance Levels of Oversight

What oversight should a school expect?

During DC PCSB's annual financial oversight cycle, the DC PCSB SFT reviews school financial performance information as described in [Appendix B](#). Reviews consider financial information against KFI floors. The outcome of these reviews affect an LEA's standing. Depending on the outcome of reviews and/or continued identified financial performance concerns, a school may be viewed in one of four categories: Standard Oversight, Monitoring List - Notice of Increased Financial Oversight, FCAP, or Possible Revocation.

DC PCSB staff conduct their financial oversight, which may lead to recommendations based on one or more of the three reasons for revocation noted in the SRA and defined in the [Financial Oversight Policy](#). If DC PCSB determines the school has shown a pattern of nonadherence to GAAP or of fiscal mismanagement, and/or is no longer economically viable, then DC PCSB is required by the SRA to revoke the school's charter.

How does a school find out when its data is below a KFI's floor?

As part of DC PCSB's annual financial oversight cycle, LEA performance is evaluated based on reviews aligned to the three criteria outlining financial oversight in the SRA. When an LEA's financial performance falls below the established floor for a KFI, DC PCSB will issue a written notice describing the concern and the actions, if any, expected of the LEA. The notice will be sent to the LEA leadership and the LEA's Governing Board.¹⁴

Notices identify the applicable KFI and its threshold, summarize the LEA's performance relative to the established floor, identify the data source and review through which the issue was identified, and specify the date of the review. Notices also describe the nature of the deficiency, outline the expected corrective action or change in performance, establish the timeframe for responding or demonstrating improvement, and explain how the LEA should submit the requested information or documentation to DC PCSB.

Different levels of oversight explained

STANDARD OVERSIGHT

Unless evidence shows otherwise is needed, an LEA is treated with Standard Oversight. LEAs in this category follow document submission requirements articulated in the [Data and Document Submission Policy](#). Documentation is reviewed by DC PCSB consistent with the oversight described in this Guidance.

INCREASED FINANCIAL OVERSIGHT

If the SFT's review of an LEA's performance data confirms performance on one or more KFI is below a floor, a Notice of Increased Financial Oversight will be issued and the LEA will be added to the Monitoring List. DC PCSB will report the addition of the LEA to the

¹⁴ When possible, the DC PCSB School Finance Team will continue to conduct initial outreach to the LEA before official action when a submission indicates that a KFI has fallen below the floor, allowing the School Finance Team to gather additional context to incorporate into its assessment of the LEA's financial performance.

Monitoring List to the Finance Committee and full DC PCSB Board; however, a Notice of Increased Financial Oversight and addition of the LEA to the Monitoring List does not require a vote by DC PCSB's Board. DC PCSB's Notices of Increased Financial Oversight clearly notify the LEA of the violation and identify the evidence needed for remediation and removal from the Monitoring List. Citations of Fiscal Concern and the corresponding list were previously used in similar contexts; SFT does not currently plan to use Citations of Fiscal Concern for these notices after School Year 2026-27.

If an LEA's performance meets the expectations identified in a Notice of Increased Financial Oversight by the date identified in the notice, then SFT will issue a letter noting satisfaction of the notice and removal of the LEA from the Monitoring List.

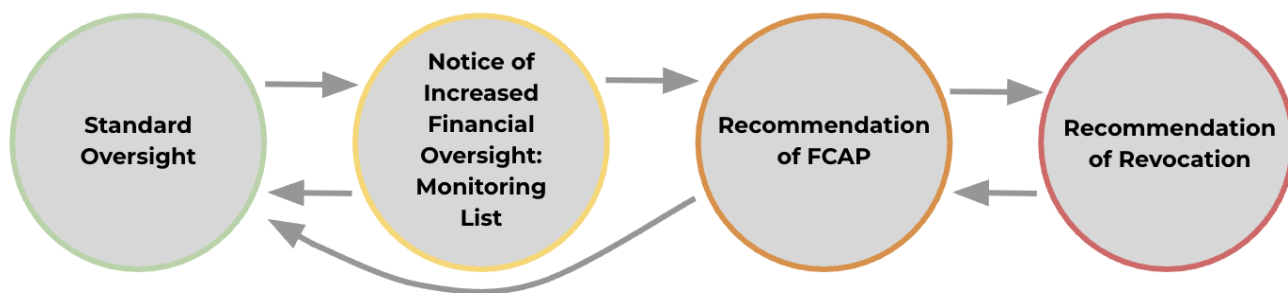
FINANCIAL CORRECTIVE ACTION PLAN

If the LEA's performance does not meet the expectations identified in the Notice of Increased Financial Oversight, then DC PCSB staff will report the information to the Finance Committee and Board via a recommended Notice of Financial Corrective Action Plan, and the Board will vote on the recommendation. A Notice of Financial Corrective Action Plan will clearly notify the LEA and its Board of the violation and identify the evidence needed for remediation and removal from the FCAP and Monitoring List.

If the LEA's performance meets the expectations consistent with the dates identified in the FCAP, then the SFT will issue a letter recognizing the successful completion of the plan and removal of the LEA from the Monitoring List. If the LEA meets the expectations identified in the FCAP before the dates identified within the plan, the SFT may recommend the DC PCSB Board vote to recognize the early termination of the FCAP and to remove the LEA from the Monitoring List.

REVOCATION

If the LEA's performance does not meet the expectations identified in the FCAP, then, in accordance with the SRA, DC PCSB staff will report the information to the Finance Committee and Board via a recommendation to initiate charter revocation and the Board will vote on the recommendation.



What happens when DC PCSB staff recommends revocation?

The SRA lays out the process for charter revocation. If the Board votes to initiate the process, DC PCSB will notify the school of its right to request an informal hearing on the revocation. During the hearing, if requested, DC PCSB staff will present the revocation recommendation, the school will have the opportunity to explain or rebut issues raised, and the DC PCSB Board

may ask questions of both staff and the school. There will also be an opportunity for testimony from the school community and public.

Following the hearing, if requested, the DC PCSB Board will consider the complete record before it and vote on whether to revoke the charter. If the Board votes to revoke, the school can appeal the decision to an appropriate court of the District of Columbia.

Financial Analysis Report

What is the Financial Analysis Report (FAR) and why is it important?

Pursuant to the SRA, each LEA is required to undergo an audit of its financial statements annually. DC PCSB collects the audited financial statements, reviews them, and subsequently publishes them on its website. Each audit is conducted by a third-party auditor chosen by the LEA from a list of auditors approved annually by the Auditor Review Committee, composed of representatives from DC PCSB, DC Office of the State Superintendent (OSSE), and DC Office of the Chief Financial Officer (OCFO). DC PCSB analyzes and summarizes the information disclosed in the audited financial statements to produce the FAR, which presents consistent, transparent, and comparable information about the finances and operations of the DC public charter sector. The FAR comprises three key components:

1. Commentary on key LEA financial and operational trends,
2. Financial information by LEA and combined for the sector, and
3. Individual LEA Reports for each LEA.

More information on the content for the FY 2026 FAR, which is expected to be released in July 2027, can be found in the [FY 2026 FAR Technical Guide](#). Additional design details on the FY 2027 FAR will be made available in Spring 2027 with the update to this guidance.

What KFI s are used for the FAR?

DC PCSB primarily relies on KFI s as the basis of the FAR. Each LEA's performance on the indicators is compared to its prior year results and the charter sector median.

- **Prior KFI s:** Change in Net Assets Margin, Aggregate 3 yr Margin, Enrollment Variance, Current Ratio, Cash Flow From Operations Margin, Days Cash on Hand, Debt Ratio, and Primary Reserve Ratio
- **Updated KFI s¹⁵:** Three-Year Weighted Enrollment Variance, Days of Cash on Hand , Two-Year Average Adjusted Operating Surplus, Current Ratio, Debt Covenant Violations, Audit opinions, Reporting Noncompliance & Procurement Policy violation(s), Debt Covenant Violations, Conflict of Interest Violations and/or fraud or theft committed by the LEA, and Material Weaknesses or Significant Deficiencies findings

[Appendix A](#) provides a crosswalk of the prior KFI s and the updated KFI s and rationale for any changes between the two sets.

When and how will DC PCSB use the updated KFI s for future FARs?

DC PCSB plans to update KFI s in the FAR via a phased approach to allow DC PCSB time to align regular financial oversight and annual reporting processes. Accordingly:

¹⁵ The updated KFI s will begin to be phased-in for ongoing oversight beginning with the FY 2027 first-quarter financial review submitted by November 2026.

- The FY 2026 FAR LEA Reports will not include the updated KFI¹⁶.
- The updated KFI¹⁷ will be reported on beginning with the FY 2027 FAR.
- Beginning with the FY 2028 FAR and annually thereafter, DC PCSB plans to release updated guidance in the spring prior to the start of each new fiscal year. Guidance related to the FY 2028 FAR report will be released in the updated version of this guidance in Spring of 2027.

What are the data sources used for the FAR?

The FAR's primary data source is each LEA's annual financial statements audit, which is prepared in accordance with [DC PCSB's Audit Guidelines](#). Additional data sources may include LEA foundational documents (e.g., charter agreement), publicly available reports (e.g., management organizations' IRS Forms 990), debt agreements, lease agreements, LEA board minutes, interim unaudited financial statements, budgets, forecasts, charter amendments, and other information provided by the LEA.

How and where is the data collected?

Upon completion of its audit, each LEA uploads to DC PCSB's internal data system, the Hub, the audited financial statements and related auditor reports. DC PCSB staff, on behalf of the LEA, completes the DC PCSB audited financial statements template based on information from the audited financial statements, obtains clarification from the LEA as needed, and uploads the template in the Hub. The LEA subsequently validates the template values in the Hub.

DC PCSB drafts each LEA's Financial Report and asks the LEA to review the draft for accuracy. Upon validation in the Hub, DC PCSB updates its database and the LEA Financial Report to incorporate any corrections. Finally, DC PCSB generates additional data tables and writes commentary observations on the key trends in LEAs' financial results.

¹⁶ To support the transition into the new oversight framework, DC PCSB will consider adding an addendum to the FY 2026 FAR that reflects the updated KFI. This addendum will serve only as a supplement resource.

¹⁷ To support the transition into the new oversight framework, DC PCSB will consider adding an addendum to the FY 2027 FAR that reflects the superseded KFI. This addendum will serve only as a supplement resource.

A **SECTION A** **Appendix A: KFI Crosswalk**

The table compares DC PCSB's prior and updated KFIs. It identifies which indicators have been retained, revised, replaced, or added and the rationale for each change. The [FY 2026 FAR Technical Guide](#) can also be referenced for additional information on prior KFIs.

Prior KFI	Updated KFI	Change	Rationale
Enrollment Variance	3-Year Weighted Enrollment Variance	Revised	Changes in enrollment continue to be a critical metric in assessing LEA financial sustainability. Historical analysis and stakeholder feedback reinforced this fact and the prior Enrollment Variance KFI has been updated to focus on year to year variance, and to encompass a longer time frame of 3 years to smooth one-year enrollment fluctuations while also putting greatest weight on the most recent years' data.
Days Cash on Hand	Days Cash on Hand	No change	Historical analysis and stakeholder feedback highlighted that Days Cash on Hand has high value as a leading indicator of an LEA's viability.
Change in Net Assets Margin	Two-Year Adjusted Operating Surplus Margin (2yrAOS Margin)	Replaced with 2yrAOS	The 2yrAOS Margin gives a clearer view of an organization's day-to-day financial standing and acts to gauge their financial stability. Additionally, 2yrAOS Margin includes a two-year window to smooth short-term operational fluctuations or seasonal cash flow swings.
Aggregate 3 yr Margin			Historical analysis and stakeholder feedback highlighted that Aggregate 3 yr Margin has less value as a leading indicator of an LEA's viability compared to the remaining KFIs.
Current Ratio	Current Ratio	No change	Historical analysis and stakeholder feedback highlighted that Current Ratio has high value as a leading indicator of an LEA's viability.
Debt Ratio	Debt Covenant Violation	No longer reviewed as stand alone KFI - encompassed as part of review of Debt Covenant Violation	Stakeholder feedback highlighted that Debt Ratio often contained similar or competing measures to Debt Covenants. Stakeholders agreed that using a lender's risk assessment (Debt Covenant Violations) is a better method to assess an LEA's viability.
Cash Flow From Operations Margin	N/A	No longer reviewed for standard oversight	Historical analysis and stakeholder feedback highlighted that Cash Flow From Operations Margin as a standalone KFI has less value as a leading indicator of an LEA's viability compared to the remaining KFIs. Instead, its underlying focus on operating performance is incorporated into the 2yrAOS margin.

Prior KFI	Updated KFI	Change	Rationale
Primary Reserve Ratio	N/A	No longer reviewed for standard oversight	Historical analysis and stakeholder feedback highlighted that Primary Reserve Ratio has less value as a leading indicator of an LEA's viability compared to the remaining KFIs.
N/A	Audit opinions	New	DC PCSB previously did not have a KFI to assess GAAP non-compliance. This KFI relies on DC PCSB-approved auditor opinions as its basis.
N/A	Reporting Noncompliance & Procurement Policy violation(s), Debt Covenant Violations	New	DC PCSB previously did not have a KFI to assess fiscal mismanagement. Monitoring for patterns of noncompliance is a means to uncover potential deficiencies in financial governance, oversight, or stewardship of public funds.
N/A	Conflict of Interest (COI) violation and/or fraud or theft committed by the LEA	New	DC PCSB previously did not have a KFI to assess fiscal mismanagement. Monitoring for Conflict of Interest (COI) violation and/or fraud or theft is a means to uncover potential deficiencies in financial governance, oversight, or stewardship of public funds.
N/A	Material Weaknesses or Significant Deficiencies findings	New	DC PCSB previously did not have a KFI to assess fiscal mismanagement. Monitoring for Material Weaknesses or Significant Deficiencies is a means to uncover potential deficiencies in financial governance, oversight, or stewardship of public funds.

B SECTION B Appendix B: KFI review timing

This table provides a month-by-month overview of data DC PCSB reviews aligned with each KFI. It also includes indicators assessed intermittently.

LEA submissions:	July	September	October	November	December	January	February	May
<i>Review:</i>			Unaudited Enrollment (current FY), Two years of audited enrollment (previous FY)			Three years of audited enrollment (current and previous FY)		
<i>KFI:</i>	FY Budget	4th Quarter financials		1st Quarter financials	Audits/FAR		2nd Quarter financials	3rd Quarter financials
Three-Year Weighted Enrollment Variance			■			■		
Days of Cash on Hand (DCOH)	■	■		■	■		■	■
Two-Year Average Adjusted Operating Surplus (2yAOS)					■			
Current Ratio		■		■	■		■	■
Debt Covenant Violations					■			
Audit opinions					■			
Reporting Noncompliance & Procurement Policy violation(s)	Intermittent SFT reviews: SFT-issued financial compliance related Notice/s of Concern; SFT reviews of DC PCSB Data, Operations, and Finance Procurement Policy Notice(s) of Concern; SFT-issued financial-related Notice/s of Concern resulting from a complaint filed with DC PCSB							
Conflict of Interest (COI) Violations and/or fraud or theft committed by the LEA	Intermittent SFT reviews: DC PCSB COI violation Notice/s of Concern; Finance-related Notice/s of Concern resulting from a complaint filed with DC PCSB; and Finance-related criminal charges committed by the LEA							
					■ Disclosures of COI violation and/or fraud/theft committed by the LEA			■ Annual 990 filings disclosures of fraud or theft committed by the LEA
Material Weaknesses or Significant Deficiencies findings					■			

**SECTION C****Appendix C: KFI Summary Table**

This table explains each KFI: the financial oversight question addressed, how it is calculated or assessed, the information DC PCSB reviews, and the thresholds associated with the Levels of Oversight.

Questions of Economic Viability	Indicator	Formula	School Finance Team Reviews	Threshold			
				Standard Oversight	Monitoring List - Notice of Increased Financial Oversight	Financial Corrective Action Plan	Revocation
Does the LEA's enrollment trend suggest sustained revenue?	Three-Year Weighted Enrollment Variance	<i>Three-Year Weighted Enrollment Variance = (Current year enrollment change*0.6) + (Prior year's enrollment change*0.25) + (Prior prior year's enrollment change*0.15). Where 'Enrollment Change' is the percentage change in enrollment compared to the preceding year.¹⁸</i>	Current year enrollment (unaudited or audited) and two previous years of audited enrollment	>-20%	≤-20%	Notice of Increased Financial Oversight not satisfied	FCAP not satisfied
Can the LEA cover operating expenses?	Days of Cash on Hand (DCOH)	<i>(Unrestricted Cash and Cash Equivalents¹⁹ + Short-Term Investments²⁰) ÷ ((Operating Expenses – Total Depreciation and Amortization) ÷ 365)</i>	Annual Budget reviews, Quarterly financial reviews, and FY Audit	≥30	<30	Notice of Increased Financial Oversight not satisfied	FCAP not satisfied

¹⁸ Enrollment for LEAs undergoing structural changes known to DC PCSB that may affect enrollment trends will be considered on a case-by-case basis. Examples of such changes include the opening or closure of facilities and/or campuses, school reorganization, school expansion, and other changes affecting approved grade levels served or the enrollment ceiling.

¹⁹ Unrestricted Cash and Cash Equivalents, defined by GAAP, are cash, money market funds, and other financial instruments that have immediate liquidity.

²⁰ Short-term investments, defined by GAAP, are investment instruments that are expected to mature within a year of the balance sheet date.

Is the LEA financially sustainable?	Two-Year Average Adjusted Operating Surplus (2yAOS)	2-Yr Average AOS Margin = (AOS Margin (Yr X) + AOS Margin (Yr X-1)) / 2 Where AOS Margin = Change in Net Assets Without Donor Restrictions + Depreciation & Amortization – Finance Lease Principal +/- Noncash items (charges/credits) ÷ (Operating Revenues - In-kind donations)	FY Audit	>-3%	≤-3% AND a significant decline in DCOH over the 2-year period ²¹	Going Concern Issue –or– Notice of Increased Financial Oversight not satisfied	FCAP not satisfied
Can the LEA fulfill short-term obligations?	Current Ratio	Total Current Assets ÷ Total Current Liabilities ²²	Quarterly financial reviews and FY Audit	≥0.9	<0.9	Notice of Increased Financial Oversight not satisfied	FCAP not satisfied
Does the LEA's lender view the organization as financially viable?	Debt Covenant Violations	The LEA has not met unwaived debt covenant requirements	FY Audit	No Debt Covenant Violations	1 or more Debt Covenant Violations (unwaived)	Notice of Increased Financial Oversight not satisfied	FCAP not satisfied

²¹ An LEA with a 2yAOS ≤-3% may remain under Standard Oversight if DC PCSB determines that the LEA maintains a stable cash position.

²² If Total Current Liabilities include a balloon payment due within the next 12 months, DC PCSB may exclude the payment from the Total Current Liabilities should the loan be extended, refinanced, or fully repaid at the time of calculation. For year-end calculations, the extension, refinancing, or repayment of the loan must be closed or completed by December 31 following the fiscal year-end. In the case of extension or refinancing, the new maturity terms must be assessed as satisfactory by DC PCSB. For quarterly calculations, DC PCSB will assess the LEA's progress toward securing an extension or refinancing and may exclude the payment if progress is deemed satisfactory in respect to the balloon payment date.

Questions of GAAP Nonadherence	Indicator	Formula	School Finance Team Reviews	Standard Oversight	Monitoring List - Notice of Increased Financial Oversight	Financial Corrective Action Plan	Revocation
<i>Are the LEA's financial statements, taken as a whole, presented fairly, in all material respects, in conformity with the applicable financial reporting frameworks?</i>	Audit opinions ²³	N/A	FY Audit	Unmodified opinion	N/A	Modified ²⁴ (other than Adverse) opinion	Adverse opinion –or– three consecutive independent audits resulting in modified opinions other than an adverse opinion –or– FCAP not satisfied
Questions of Fiscal Mismanagement	Indicator	Formula	School Finance Team Reviews	Standard Oversight	Monitoring List - Notice of Increased Financial Oversight	Financial Corrective Action Plan	Revocation
<i>Has the LEA's fiscal mismanagement and non-compliance risked the organization's financial standing?</i>	Reporting Noncompliance & Procurement Policy violation(s)	N/A	Notice(s) of Concern arising from: financial compliance reviews; Procurement Policy reviews; and complaints filed with DC PCSB.	<2 Notices of Concern within most-recent 12 months	≥2 or more Notices of Concern within most-recent 12 months	Notice of Increased Financial Oversight not satisfied	FCAP not satisfied
	Debt Covenant Violations	The LEA has not met unwaived debt covenant requirements	FY Audit	No Debt Covenant violations	1 or more Debt Covenant violations (unwaived)	Notice of Increased Financial Oversight not satisfied	FCAP not satisfied

²³ Assessing GAAP Nonadherence relies on audit “opinions”. Audit “findings” (e.g. material weaknesses or significant deficiencies) are used to assess Fiscal Mismanagement.

²⁴ Audits resulting in a Disclaimer of Opinion will be evaluated on a case-by-case basis, with consideration given to the specific circumstances identified by the auditor.

<i>Has the LEA board and/or leadership materially violated its Conflicts of Interest (COI) policy, COI provisions in the D.C. Code, and/or fiduciary duty?</i>	Conflict of Interest (COI) violation and/or fraud or theft committed by the LEA	N/A	FY Audit disclosures of COI violations and/or fraud/theft and annual 990 filing disclosures of fraud or theft Notice(s) of Concern from Sector Planning and Compliance reviews or from Procurement Policy reviews; Notice(s) of Concern arising from complaints filed with DC PCSB; and finance-related criminal charges against the LEA.	No findings	≥1 finding within most -recent 12 months	Notice of Increased Financial Oversight not satisfied	FCAP not satisfied
<i>Does the LEA's audit note findings of Material Weaknesses and/or Significant Deficiencies?</i>	Material Weaknesses or Significant Deficiencies findings ²⁵	N/A	FY Audit	No findings	No Material Weakness and 3 or more consecutive audits with the same Significant Deficiency	1 Material Weakness –or– Notice of Increased Financial Oversight not satisfied	FCAP not satisfied

²⁵ Assessing GAAP Nonadherence relies on audit “opinions”. Audit “findings” (e.g. material weaknesses or significant deficiencies) are used to assess Fiscal Mismanagement.

Appendix D: Definitions

This section includes definitions of technical terms and key concepts used in the School Financial Oversight Guidance. It aims to support a clear and consistent understanding of DC PCSB's financial oversight expectations, indicators, and processes. The definitions below are current, if needed, you can reference previous versions of many in the [FY 2026 FAR Technical Guide](#).

- **Adverse Opinion:** An adverse opinion means that the auditor has concluded that the LEA's financial statements contain misstatements that taken individually or in the aggregate are both material and pervasive to the financial statements.²⁶
- **Change in Net Assets Margin:** This Prior KFI is an indicator of the LEA's ability to keep expenses aligned with revenue throughout the fiscal year, relative to the size of its budget.
- **Aggregated Three-Year Margin:** This Prior KFI measures over the long term whether an LEA's revenues are exceeding its expenses.
- **Citations of Fiscal Concern:** Introduced in FY 2025, DC PCSB plans to sunset the current Citation of Fiscal Concern list at the end of FY 2027. The Citations of Fiscal Concern list was introduced to address formal citations issued to LEAs for various issues, such as material weaknesses, significant deficiencies, large variances, consistently late submissions, or instances of fraud or theft. DC PCSB plans to address these concerns in future Notices of Increased Financial Oversight.
- **Cash Flow from Operations Margin:** This Prior KFI measures whether an LEA's operations are generating or using net cash.
- **Debt Compliance Issue – Financial:** The LEA was not in compliance with certain financial covenants required by its debt agreements, specifically covenants related to financial metrics. While the lender may have waived the violation, a debt-compliance issue may prelude insolvency.
- **Debt Compliance Issue – Reporting:** The LEA was not in compliance with certain financial covenants required by its debt agreements, specifically covenants related to financial reporting.
- **Debt Ratio:** This Prior KFI measures how leveraged an LEA is or the extent to which an LEA relies on borrowed funds to finance its operations.
- **Disclaimer of Opinion:** A “disclaimer of opinion” means that the auditor has been unable to obtain sufficient evidence to express an opinion on the LEA's financial statements, and the possible effects of undetected misstatements, if any, could be both material and pervasive.²⁷
- **Early Warning:** As outlined in the [Data and Document Submission and Verification Policy](#), an Early Warning is an email sent to the head of school by DC PCSB staff and is clearly labeled “early warning.” (This does not include communications between DC PCSB staff and school leadership that do not contain the header “early warning.”) A school may receive an Early Warning for failure to submit requested data or documents within the timeframe prescribed, including failure to validate DC PCSB or

²⁶ SAS AU-C § 705.09.

²⁷ SAS AU-C § 705.10.

OSSE data within the timeframe allotted (e.g., for DC PCSB's accountability framework, Council Reports, or the State Report Card).

- **Enrollment Variance:** This Prior KFI considering change in enrollment within a school year measures an LEA's ability to accurately forecast its enrollment. Since per student funding accounts for most of the LEA's funding, inaccurate enrollment forecasting can have a strong effect on financial performance and LEA stability.
- **Financial Corrective Action Plan (FCAP):** An official tool and formal recovery plan approved by the DC PCSB board to address concerns raised by an LEA's financials. The FCAP is created collaboratively with the LEA and sets a timeline and milestones which must be met by the LEA.
- **Findings and Questioned Costs (Uniform Guidance):** Disclosure of Uniform Guidance audit findings that the auditor determines are important enough to merit attention by those charged with governance, with documentation of corrective action plans noting the responsible party.
- **Going-Concern Issue:** Expressed in an audit opinion letter, a going concern issue indicates that the auditor has questioned the ability of the LEA to continue operations.
- **Independent Audit:** An independent audit means an annual financial audit conducted by an independent certified public accountant or accounting firm selected from the approved list that DC PCSB reviews and updates annually in collaboration with the Office of the State Superintendent of Education (OSSE) and the Office of the Chief Financial Officer (OCFO) (collectively, "the Audit Review Committee").²⁸
- **Material Weaknesses in the Internal Control over Financial Reporting (GAS):** In planning and performing the audit of the financial statements in accordance with Government Auditing Standards (GAS), the auditor considers internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the LEA's financial statements will not be prevented or detected and corrected in a timely manner.
- **Modified Opinion:** A modified opinion means anything other than an unmodified report: a qualified opinion, an adverse opinion, or a disclaimer of opinion on the financial statements.²⁹
- **Monitoring List:** When DC PCSB issues a Notice of Increased Financial Oversight and/or a Notice of Financial Corrective Action Plan, the LEA will be placed on the Monitoring List.
- **Noncompliance Material to the Financial Statements (GAS):** As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, the auditor tests for compliance with certain provisions of laws, regulations, contracts, and grant agreements in accordance with GAS. Noncompliance could have a direct and material effect on the determination of financial statement amounts.
- **Non-Cash Items:** Items recognized on the statement of activities that do not result in corresponding cash inflow or outflow. These may include noncash operating lease expense or lease payment above lease expenses, bad debt expense, and unrealized gains or losses.
- **Notice(s) of Concern:** As outlined in the [Data and Document Submission and Verification Policy](#), the DC PCSB Board may vote to issue a Notice of Concern if a school receives two Out of Compliance notices within a school year, upon the third Out of Compliance notice, the DC PCSB Board may vote to issue it as a Notice of Concern instead.

²⁸ See D.C. Code § 38-1802.04(c)(11)(B)(ix). Audit requirements are set out in DC PCSB's Local Education Agency Audited Financial Statements Guidelines and Expectations.

²⁹ SAS AU-C § 705.06

- **Notice of Increased Financial Oversight:** This is an official notice delivered to an LEA by DC PCSB's School Finance Team that notifies the LEA has demonstrated below-floor performance in one or more KFI. Receiving this Notice indicates the LEA will be placed on the Monitoring List. The notice will include the violation and identify the evidence needed for remediation and removal from the Monitoring List.
- **Notice of Financial Corrective Action Plan:** This is an official notice delivered to an LEA by DC PCSB's School Finance Team that notifies the LEA has either not met KFIs and/or has not effectively resolved expectations noted in a Notice of Increased Financial Oversight. LEAs receiving this Notice will either remain on or be added to the Monitoring List if they were not previously on it. The Notice will identify the violation and identify the evidence needed for remediation and removal from the Monitoring List.
- **Opinion on the Financial Statements (GAAP):** The auditor issues an opinion letter on the preparation and fair presentation of basic financial statements in accordance with Generally Accepted Accounting Principles (GAAP). An unmodified opinion means the auditor has gathered sufficient and appropriate evidence to provide a basis for the opinion that the statements present fairly the financial position of the LEA and the results of operations. Should there be areas of doubt, the opinion may be qualified, adverse, or a disclaimer of opinion.
- **Opinion on Major Federal Programs (Uniform Guidance):** When expenditures of federal funds are greater than \$1,000,000, the auditor performs an extended audit (Uniform Guidance audit) and issues an opinion letter on compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the LEA's major federal programs. A qualified or adverse opinion indicates instances of noncompliance.
- **Out of Compliance Notice:** As outlined in the [Data and Document Submission and Verification Policy](#), an Out of Compliance notice is an email specifically labeled "Out of Compliance" sent by DC PCSB staff to the head of school for failure to submit requested data or documents within the timeframe provided in an Early Warning email.
- **Primary Reserve Ratio:** This Prior KFI compares an LEA's net asset size relative to its operating expenses — a measure of financial strength.
- **Significant Deficiencies in the Internal Control over Financial Reporting (GAS):** In planning and performing the audit of the financial statements, the auditor considers internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.
- **Qualified Opinion:** A qualified opinion means that the auditor has found that the LEA's financial statements contain material misstatement(s) in specific amounts that are material but not pervasive, or that the possible effects of any undetected misstatements could be material but not pervasive.³⁰
- **Unmodified opinion ("clean audit"):** An unmodified opinion or "clean audit" means that the auditor has concluded that the LEA's financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.³¹
- **Unresolved Prior Year Audit Findings:** Disclosure of prior year audit findings that have not been corrected.

³⁰ SAS AU-C § 705.08.

³¹ Statements on Auditing Standards, American Institute of Certified Public Accountants (2025) (hereinafter SAS), AU-C § 700.10 (Definitions).