

# **Fiscal Year 2024 Financial Analysis Report Technical Guide**

July 1, 2023



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## **About the DC Public Charter School Board**

In school year 2022-23, the DC Public Charter School Board (DC PCSB) oversaw 69 public charter school local education agencies (LEAs) at 135 campuses, which served more than 46,000 students from every ward of the city.

### Our Vision

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

### Our 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; and
- Actively engage families, schools, and communities to inform our decision-making.

### Our Commitment to Race, Equity, Diversity, and Inclusion Work

Grounded in our race, equity, diversity, and inclusion (REDI) work, we pledge to take time to reflect, listen, and hold space for one another in service of our mission. We are united in the following beliefs and commitments that will guide our authorizing work moving forward:

- We acknowledge the prevalence of interpersonal, institutional, and systemic racism in our country
- We seek to understand the collective impact of racism and inequity on public education and our role in perpetuating these harms
- We believe an excellent school is equitable
- We work to eliminate the impact of racism and inequity on students as DC's public charter school authorizer
- We commit to continuous learning about ourselves, our work, and our city to inform our policies, practices, recommendations, and behaviors
- We engage all voices in our decision-making process thoroughly and consistently, and we embrace discord that can come when people share their personal experiences and perspectives on our work

### 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 REDI work. Board members are nominated by the mayor and confirmed by the DC Council.

## **DC PCSB's Financial Analysis Report Overview**

The School Reform Act (SRA) requires that DC PCSB revoke the charter of any public charter school that (1) has engaged in a pattern of nonadherence to generally accepted accounting principles (GAAP); (2) has engaged in a pattern of fiscal mismanagement; and/or (3) is no longer economically viable. Further, each public charter 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 (OCFO), and the Office of the State Superintendent of Education (OSSE). DC PCSB analyzes and summarizes the information in these audits to produce the Financial Analysis Report (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.

## **Financial Report Cards**

The FAR includes one [Financial Report Card](#) for each LEA, regardless of how many campuses or facilities the LEA operates. DC PCSB does not publish Financial Report Cards for LEAs that were closed prior to the start of the current FY.

### ***LEA Profile***

The top bar of the Financial Report Card includes profile information for each LEA, specifically:

Name: The FAR Report Card refers to each LEA by its familiar name, which may be the registered name of the non-profit corporation that holds the LEA's charter or may be a "doing business as" name.

Opened: This refers to the LEA's first school year of academic operations.

Going Concern: If the auditor has noted a Going Concern, the LEA Profile bar will

include a prominent indicator. A Going Concern indicates that the auditor has questioned the ability of the LEA to continue operations.

### ***Key Financial Indicators***

The primary focus of the Financial Report Card is the Key Financial Indicators. Each LEA's performance on these indicators is compared to its prior year results and the charter sector median. The Key Financial Indicators are:

#### Change in Net Assets Margin

This is an indicator of the LEA's ability to keep expenses aligned with revenue throughout the FY, relative to the size of its budget. It is calculated as:

$$\text{Change in Net Assets Margin} = \frac{\text{Operating Revenues} - \text{Operating Expenses}}{\text{Operating Revenues}}$$

DC PCSB expects this change to be above 0%, while changes below -5% may be cause for concern.

#### Aggregate Three-Year Margin

This indicator measures over the long term whether an LEA's revenues are exceeding its expenses. It is calculated as:

$$\text{Aggregate Three-Year Margin} = \frac{\text{Three-Year Operating Income}}{\text{Three-Year Operating Revenues}}$$

Where:

$$\text{Three-Year Operating Income} = \sum \text{Operating Income (CY, CY - 1, CY - 2)}$$

And:

CY = Current year

CY-1 = Year prior to current year

CY-2 = Year prior to CY-1

DC PCSB expects LEAs' Aggregate Three-Year Margins to be above 0%. Aggregate Three-Year Margins below -1.5% may be cause for concern.

#### Enrollment Variance

This indicator is a measure of an LEA's ability to accurately forecast its enrollment. Since per student funding comprises most of the LEAs' funding, inaccurate enrollment forecasting, and its consequential budget variances, can significantly impact financial performance and school stability. This indicator is calculated as:

$$\text{Enrollment Variance} = \frac{\text{Audited Enrollment} - \text{Budgeted Enrollment}}{\text{Budgeted Enrollment}}$$

DC PCSB expects LEAs' Enrollment Variance to be above 0%. Enrollment Variances below -5% may be cause for concern.

#### Current Ratio

This indicator measures the financial resources available to meet an LEA's short-term obligations due within the following 12 months. It is calculated as:

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities} - \text{Next Year's Scheduled Balloon Payments}^1}$$

DC PCSB expects LEAs' Current Ratios to be above 1.0. Current Ratios below 0.9 may be cause for concern. See [Current Liabilities](#) below.

#### Cash Flow from Operations Margin

This indicator measures whether an LEA's operations are generating or using cash. It is calculated as:

$$\text{Cash Flow from Operations Margin} = \frac{\text{Net Cash Provided by (Used In) Operating Activities}}{\text{Operating Revenues}}$$

DC PCSB expects LEAs' Cash Flow from Operations Margins to be above 0%. Cash Flow from Operations Margins below -2% may be cause for concern.

#### Days of Cash on Hand

This indicator measures the number of days of expenses an LEA can pay with cash on hand. It is calculated as:

$$\text{Days of Cash on Hand} = \frac{\text{Unrestricted Cash and Cash Equivalents}^2 + \text{Short-Term Investments}^3}{(\text{Operating Expenses} - \text{Total Depreciation and Amortization}) / 365 \text{ Days}}$$

DC PCSB expects LEAs to have at least 45 days of cash on hand. Fewer than 30 days of cash on hand may be cause for concern.

#### Debt Ratio

<sup>1</sup> Next Year's Scheduled Balloon Payments are the FYE current portion of debt, but not greater than the amount of debt for which the LEA has provided DC PCSB with an unconditional commitment from a bona fide lender dated on or before the FYE, or the LEA has closed on the refinancing of the ballooning loan by the following December 31.

<sup>2</sup> Unrestricted Cash and Cash Equivalents, defined by GAAP, are cash, money market funds, and other financial instruments that have immediate liquidity.

<sup>3</sup> Short-term investments, defined by GAAP, are investment instruments that are expected to mature within a year of the balance sheet date.

This indicator measures how leveraged an LEA is, or the extent to which an LEA relies on borrowed funds to finance its operations. It is calculated as:

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

DC PCSB expects LEAs' Debt Ratios to be below 0.5. Debt Ratios above 0.9 may be cause for concern.

#### Primary Reserve Ratio

This indicator is a measure of financial strength that compares an LEA's net asset size to its operating budget. It is calculated as:

$$\text{Primary Reserve Ratio} = \frac{\text{Net Assets}}{\text{Operating Expenses}}$$

DC PCSB expects LEAs' Primary Reserve Ratios to be above 0.2. Primary Reserve Ratios below 0.0 may be cause for concern.

$$\text{Enrollment Variance} = \frac{\text{Audited Enrollment} - \text{Budgeted Enrollment}}{\text{Budgeted Enrollment}}$$

#### Unresolved Prior Year Audit Findings

Disclosure of prior year audit findings that have not been corrected.

#### Debt Compliance Issue – Financial

The LEA's audited financial statements disclose that the LEA was not in compliance with certain financial covenants required by its debt agreements, specifically covenants related to financial indicators. While the lender may have waived the violation, a debt-compliance issue may prelude insolvency.

#### Debt Compliance Issue – Reporting

The LEA's audited financial statements disclose that the LEA was not in compliance with certain financial covenants required by its debt agreements, specifically covenants related to financial reporting. If the LEA has received a waiver of the violation by the audit's completion, DC PCSB will consider debt compliance issues related to reporting to be resolved and will not include the issue in the Key Financial Indicators.

### ***Enrollment, Operations, and Working Capital***

This chart includes Operating Revenues, Operating Expenses, Change in Net Assets, Working Capital, and Enrollment data for the past five FYs or (if fewer) the number of FYs since the LEA first began operations.



## **Expenses**

The DC PCS Expenses by Category chart provides informational data on each LEA's allocation of resources among the major funding categories shown below and the corresponding DC public charter school sector median:

- Salaries and benefits.
- Direct student costs, including contracted instructional and food services.
- Occupancy, including rent, facility depreciation and amortization, and interest expense on facility debt.
- General expenses, including office expenses, professional fees, non-facility depreciation and amortization, and non-facility interest expense. General expenses may also include management fees, if applicable.

## **Financial Position and Financial Activities**

The Financial Report Card includes financial results for the past two FYs and the percentage increase or decrease from the prior year to the current year, specifically:

### Financial Position

The Financial Position table includes:

- Total Assets.
- Current Assets (assets available to the LEA within the following 12 months).
- Total Liabilities.
- Current Liabilities (liabilities coming due within the following 12 months).<sup>4</sup>;
- Working Capital (Current Assets less Current Liabilities).
- Net Assets (Total Assets less Total Liabilities).

### Financial Activities

The Financial Activities table includes:

- Operating Revenues, including all federal funding (both entitlement and competitive), state/local funding (DC per pupil funding, including foundational amounts, facilities funding, and categorical add-ons), competitive government grants, additional grants and contributions (private grants, cash contributions, and in-kind contributions), and other income.
- Operating Expenses, including program services, general and administrative, and fundraising expenses.
- Occupancy Expenses as a percentage of Facilities Revenue.
- Nonoperating Income (Loss), such as gains or losses on investments and sale of assets not stemming from core business activities.
- Surplus (Deficit), equal to Operating Revenues less Operating Expenses plus Nonoperating Income (Loss).

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<sup>4</sup> Total Current Liabilities, for the purpose of calculating Working Capital or the Current Ratio, shall exclude Next Year's Scheduled Balloon Payments.

- Other Increases (Decreases) in Net Assets (e.g., cumulative effect of changes in accounting principles).
- Increase (Decrease) in Net Assets, equal to Surplus (Deficit) plus Other Increases (Decreases) in Net Assets.

#### Revenues/Expenses per Student

The Revenues/Expenses per Student table, based on the current year audited enrollment and sector medians, includes:

- DC Funding.
- Grants and Contributions, including private and competitive government grants and cash and in-kind contributions.
- Operating Revenues.
- Operating Expenses.
- Operating Income (Loss).

#### ***Audit Findings***

LEA management is responsible for maintaining and reporting accurate, comprehensive financial information. In conducting the annual audit, the external auditor verifies the LEA's effectiveness in doing so. Audit findings address areas of nonconformity with GAAP, government auditing standards (GAS), and other financial reporting or management requirements. In issuing a finding, the auditor defines the condition, cause and effect, and recommendation for addressing the area of concern.

#### Opinion on the Financial Statements (GAAP)

The auditor issues an opinion letter on the basic financial statements. 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.

#### Material Weaknesses 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 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.

#### 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.

#### 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. Noncompliance could have a direct and material effect on the determination of financial statement amounts.

#### Opinion on Major Federal Programs (Uniform Guidance)

When expenditures of federal funds are greater than or equal to \$750,000, the auditor performs an extended review 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.

#### Material Weakness in the Internal Control over Compliance with Major Federal Programs (Uniform Guidance)

In planning and performing the audit of major federal programs, 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.

#### Significant Deficiency in the Internal Control over Compliance with Major Federal Programs (Uniform Guidance)

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.

#### Findings and Questioned Costs (Uniform Guidance)

Disclosure of 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

The financial strength of the school to continue as a going concern is questioned in the audit opinion letter.

### **DC PCSB Observations**

In addition to standardized financial indicators and qualitative components of the audit, DC PCSB synthesizes important, individualized information from each LEA's audit. Where necessary for clarity, DC PCSB may add information from other sources, including without limitation the LEA's foundational documents (e.g., charter agreement), lease agreements, and debt instruments. Each LEA is given the opportunity to review and provide input to these observations before the publication of the FAR.

DC PCSB observations may include narratives, tables, and/or charts that address:

- Financial and enrollment trends.
- Management organization and related party transactions.

- Facility information, such as leasing and financing arrangements, ownership, and construction work in progress.
- Plans that may significantly affect the LEA's financial results, such as additional campuses or facilities.
- Additional information about audit findings.
- Other financial matters of significance.

### ***LEA Comments***

LEAs are encouraged to provide comments regarding their financial and operational strengths, challenges, and plans. Where appropriate, DC PCSB will try to incorporate these comments in its observation to minimize the need for separate comments, but in any event, DC PCSB will maintain its independent financial oversight. These comments are limited to approximately 1,000 characters; when requested by the LEA, DC PCSB will aim to provide more space for further comments. DC PCSB may edit LEAs' comments for length and clarity, but not for content, except in rare cases.

### ***Management Organizations and Related Parties***

Fifteen LEAs operated in FY 2023 with one or more school management organizations (MO). Per the Public Charter School Fiscal Transparency Amendment Act of 2015, an MO is an entity that a public charter school identifies in its charter petition or petition for charter revision with which the public charter school contracts to provide management or oversight services regarding the LEA's expenditures, administration, personnel, or instructional methods. The term "school management organization" does not include an entity with which a public charter school contracts solely to provide administrative support services, such as: (A) Payroll processing or information technology services; (B) Academic support services; or (C) Temporary management services recommended by the eligible chartering authority to improve the performance of a public charter school.

An organization is a related party (RP) to the LEA if the organization and the LEA are "related organizations" as defined in the [Internal Revenue Service Form 990 Schedule R and its instructions](#) or are "Related parties" as defined in [Financial Accounting Standards Board Accounting Standards Codification Master Glossary](#). In addition, for the purpose of the FAR, a related party shall include current and former LEA employees or board members employed or under contract with the LEA or an organization under contract with the LEA.

LEAs with MOs and LEAs having an aggregate amount of transactions with RPs greater than or equal to \$25,000 in the current fiscal year (FY) receive additional supplementary tables with information about each MO/RP relationship. Each table includes:

- Name, MO and/or RP, tax status, city, and state.
- Relationship to LEA explanation.

- Agreement start and expiration dates.
- Services described in detail.
- How fee is determined, including percentages, cost-plus, and other fee arrangements.
- Fee payments (excluding cost reimbursements) during the current FY, fee percentage of Operating Revenues, and FY end (FYE) payable to MO/RP.
- Name, title, and latest annual compensation of highest paid MO/RP employee (as supported by the LEA/MO/RP's most recent financial reports).

## **Data Sources**

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., MOs' 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.

## **Data Processing**

Upon completion of its audit, each LEA uploads to DC PCSB's internal data system 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 Card and asks the LEA to review the draft for accuracy. Upon validation in the Hub, DC PCSB updates its database and the Financial Report Cards to incorporate any corrections. Finally, DC PCSB generates additional data tables, described below, and writes commentary observations on the key trends in LEAs' financial results.

## **Additional Data Tables**

In addition to LEA-specific data, DC PCSB compiles aggregated and comparative data for greater transparency and ease of use by external stakeholders. These tables exclude data for LEAs that were closed prior to the start of the current FY.

Aggregated reports provide combined data for all DC public charter schools (the sum of all LEAs' results in a particular indicator). Aggregated data tables include:

- Combined Statements of Financial Position.
- Combined Statements of Activities.
- Combined Statements of Cash Flows.
- Combined Statements of Operating Expenses.

Comparative reports provide a single table comparing each LEA's results for selected indicators. Comparative data tables include:

- Unrestricted Cash, Total Current Assets, Total Current Liabilities, Net Assets, Working Capital, and Days of Cash on Hand.
- Net Assets as of the end of each of the five most recent FYs.
- Unrestricted Cash, Net Cash from Operations, Current Debt, Long-Term Debt, and Days of Cash on Hand.
- Operating Revenues, Operating Expenses, Nonoperating Income (Loss), and Surplus (Deficit).
- Sources of Operating Revenues by amount and percentage of total, including Total DC Funding, Federal Funds, Grants and Other Contributions, and Other Income.
- Grants and Other Contributions by amount and per pupil, for each of the three most recent FYs and the three-year averages.
- Distribution of Operating Expenses by amount and percentage, including Personnel Salaries and Benefits, Direct Student Costs, Occupancy Expenses, and General Expenses.
- Distribution of Expenses by Function by amount and percentage, including Program, General and Administrative, and Fundraising.

Finally, a report summarizes LEAs that operated with MOs and/or RPs.