

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD

Charter Actions Requiring a Vote

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

Non-Voting Board Items

- ☐ Public Hearing Item
- ☐ Discussion Item
- ☐ Read into Record

Policies

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

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SUBJECT: Open for Public Comment – Fiscal Year 2016 Financial Audit Review Report Technical Guide

DATE: November 21, 2016

Proposal

The DC Public Charter School Board ("DC PCSB") staff recommends its Board vote to invite the public to comment on the Fiscal Year 2016 Financial Audit Review (FAR) Report Technical Guide from November 22 through December 20, 2016. DC PCSB will hold a public hearing on this matter on December 19, 2016 and will vote on the proposed revisions to the policy on January 23, 2016.

Written comments may be submitted until December 20, 2016 by mail or email to:

DC Public Charter School Board
3333 14th Street NW, Suite 210
Washington, DC 20010
public.comment@dcpcsb.org

Background

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 DC public charter school is required to conduct annually a thorough audit of its finances and operations, conducted by a third-party auditor, chosen by the school from a list of approved auditors selected by DC PCSB, the Office of the Chief Financial Officer (OCFO), and the Office of the State Superintendent of Education (OSSE). DC PCSB, with support and counsel from OCFO and OSSE, analyses and summarizes the information in these audits to produce the Financial Audit Review

(FAR) Report that presents consistent and transparent information about DC public charter schools' finances and operations.

The FAR Report includes a Financial Report Card for each school, which provides data on the school's management organization, if applicable. Additional data tables and narrative commentary on the key trends and opportunities of DC public charter schools' finances provide context and analysis. Each of these is detailed in the FAR Technical Guide.

Beginning in fall 2015, DC PCSB began convening a Task Force of school leaders, business managers, and charter support organizations to give input into the FAR Report's methodology, design, and production process. The Task Force met monthly through fall 2015, then again monthly beginning in spring 2016. At each meeting, and in emailed surveys, the Task Force members were asked to give input into different elements of the FAR Report, with a particular focus on the metrics comprising the Key Financial Indicators and the design of the FAR Report Card.

The FAR Technical Guide outlines DC PCSB's process for producing the FAR Report. It was created so that school leaders, data managers, families, and other stakeholders would understand the FAR Report's content, methodology, and scope. This is the first time that DC PCSB has published a FAR Technical Guide. It includes several changes from the previous FAR methodology, specifically:

- Use of margins rather than absolute values: In order to compare financial results of schools of different sizes, we now use margins for two metrics that were previously based on absolute values, specifically:
 - Replaced *Operating Surplus/Deficit* with *Change in Net Assets Margin*.
 - Replaced *Cash Flow from Operations* with *Cash Flow from Operations Margin*.
- Adoption of standard Debt Service Coverage Ratio: In previous FAR Reports, we used a *Modified Debt Service Ratio* to assess schools' facility costs as a percentage of revenue. In consultation with the Task Force, Modified Debt Service Coverage Ratio has been replaced with a *Debt Service Coverage Ratio* metric that is more widely used by industry financial analysts.
- Adoption of standard Enrollment Variance: In previous FAR Reports, we used a *Change in Enrollment* metric based on the difference between a school's enrollment in the current (audited) year and the prior year. In consultation with the Task Force, Change in Enrollment has been replaced with *Enrollment Variance*, which compares a school's enrollment to its budgeted enrollment.
- Greater granularity in Debt Compliance Issues: In previous FAR Reports, all Debt Compliance Issues have been treated the same. Based on feedback from the Task Force, we will now differentiate between Debt Compliance Issues related to reporting (e.g., submission of audited financial results) and those related to financial health (e.g., meeting covenants based on financial ratios). These different types of issues have very different implications for a school's financial health, and should not be considered the same in the FAR Report.

Attachment to this Notification

Attachment A: Draft Fiscal Year 2016 Financial Audit Review Report Technical Guide

Date: _____

PCSB Action: _____ Approved _____ Approved with Changes _____ Rejected

Changes to the Original Proposal:

Signature: _____