

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Office of Integrity and Oversight
By EMAIL

September 7, 2021

Dr. Christina Grant, Acting State Superintendent of Education
Office of the State of Superintendent of Education
1050 First Street, NE
Washington, DC 20002

Deloras Shepherd, Associate Chief Financial Officer
Education Cluster
1200 First Street, NE, 11th Floor
Washington, DC 20002

Dear Dr. Grant and Ms. Shepherd:

Pursuant to Federal Public Law 108-335, the Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) has completed an audit, conducted under job code (OIO No. 21-01-10 OSSE), of the Revenue and Expenditure Report of the Office of the State Superintendent of Education (OSSE)'s, Office of Public Charter School Financing and Support (OPCSFS)'s Direct Loan and Credit Enhancement Fund (DLCEF) for the Fiscal Year ended September 30, 2020.

Unmodified Opinion on the Revenue and Expenditure Report of the Fund

In our opinion, the Direct Loan and Credit Enhancement Revenue and Expenditure Report for the Fiscal Year Ended September 30, 2020, is presented fairly, in accordance with Public Law 108-335 financial provisions.

We appreciate the cooperation and courtesies extended to our staff during this engagement. Should you have any questions, please call me at (202) 442-6433, or Tisha Edwards, Internal Audit Director at (202) 442-6446.

Sincerely,

Timothy Barry

Timothy Barry, Executive Director
Office of Integrity and Oversight

cc: see Distribution List

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Office of Integrity & Oversight

**Government of the District
of Columbia, Office of the
Chief Financial Officer**

August 31, 2021

**Audit of the Direct
Loan and Credit
Enhancement Fund's
Revenue and
Expenditure Report for
the Fiscal Year ended
September 30, 2020**

**AUDIT OF THE DIRECT LOAN AND CREDIT ENHANCEMENT FUND (DLCEF)
REVENUE AND EXPENDITURE REPORT FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2020**

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**AUDIT OF THE DIRECT LOAN AND CREDIT ENHANCEMENT FUND (DLCEF)
REVENUE AND EXPENDITURE REPORT FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2020**

ACRONYMS

ACFO	Associate Chief Financial Officer
AICPA	American Institute of Certified Public Accountants
DLCEF	Direct Loan and Credit Enhancement Fund
FY	Fiscal Year
OCFO	Office of the Chief Financial Officer
OIO	Office of Integrity and Oversight
OPCSFS	Office of Public Charter School Financing and Support
OSSE	Office of the State Superintendent of Education
SOAR	System of Accounting and Reporting

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer
Office of Integrity and Oversight



Independent Auditor's Report

Dr. Christina Grant, Acting State Superintendent of Education
Office of the State of Superintendent of Education

Deloras Shepherd, Associate Chief Financial Officer
Education Cluster

Report on the Direct Loan and Credit Enhancement Fund Revenue and Expenditure Report

Pursuant to Public Law 108-335, we have audited the accompanying Revenue and Expenditure Report of the Direct Loan and Credit Enhancement Fund (DLCEF), for the Fiscal Year ended September 30, 2020.

Management's Responsibility for the Revenues and Expenditures Report

Management is responsible for the preparation and fair presentation of the Revenue and Expenditure Report in accordance with Public Law 108-335 financial provisions; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the revenue and expenditures that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Revenue and Expenditure Report based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the DLCEF revenue and expenditures are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts in the revenue and expenditures accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the revenue and expenditures, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the revenue and expenditures in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the revenue and expenditures.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Revenue and Expenditure Report present fairly, in all material respects, the result of operations of the Direct Loan and Credit Enhancement Fund for the fiscal year ended September 30, 2020, in accordance with Public Law 108-335 financial provisions.

Emphasis of Matter

Basis of Accounting

We draw attention to Note 2 of the Revenue and Expenditure Report which describes the basis of accounting. The Revenue and Expenditures are presented based on the financial provisions of Public Law 108-335, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Fund Reporting and Audit

We also draw attention to Note 3 - Fund Accounting and Audit which explains that the OPCSFS has compiled the annual Revenue and Expenditure Report since FY2016 and the report was audited for the first time in FY2017. The Public Law 108-335 requires the Direct Loan and Credit Enhancement Fund to provide an annual financial report that is audited. Our current year opinion is not modified with respect to this matter.

Restriction of use

This report is intended solely for the information and use of those listed in the distribution list and is not intended to be used by anyone other than these specified parties.

Timothy Barry

Timothy Barry, Executive Director
Office of Integrity and Oversight

August 31, 2021

**AUDIT OF THE DIRECT LOAN AND CREDIT ENHANCEMENT FUND (DLCEF)
REVENUE AND EXPENDITURE REPORT FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2020**

**DIRECT LOAN AND CREDIT ENHANCEMENT FUND (DLCEF)
REVENUE AND EXPENDITURE REPORT
For the Fiscal Year Ended September 30, 2020**

Income	Amount
Interest Income Credit Enhancement	\$ 44,300.05
Interest Income Direct Loan	1,164,981.93
Total Interest Income	1,209,281.98
Service Fees - Credit Enhancement	35,739.82
Service Fees - Direct Loan	56,329.10
Total Service Fees	92,068.92
Loan Proceeds - Credit Enhancement	--
Loan Proceeds - Direct Loan	7,118,920.80
Total Loan Proceeds	7,118,920.80
Total Revenue	8,420,271.70
New Loans Issued	2,724,159.22
Less Operating Expenses	--
Net Revenue	\$5,696,112.48

**AUDIT OF THE DIRECT LOAN AND CREDIT ENHANCEMENT FUND (DLCEF)
REVENUE AND EXPENDITURE REPORT FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2020**

Notes

Note 1: Reporting Entity

Pursuant to Federal Public Law 108-335 dated October 18, 2004, the District of Columbia government shall establish a dedicated account for the Office of Charter School Financing and Support (the Office) that shall consist of: (i) the Federal funds appropriated in this act; (ii) any subsequent appropriations; (iii) any unobligated balances from prior fiscal years; (iv) any additional grants; (v) any interest and principal derived from loans made to Charter Schools; and (vi) repayment of dollars utilized to support credit enhancement earned in this or any fiscal year. The account shall be under the control of the District of Columbia's Chief Financial Officer who shall use those funds solely (restricted funds) for the purposes of carrying out the Credit Enhancement Program, Direct Loan Fund Program, and any other charter school financing under the management of the Office.

The pertinent sections of the Public Law 108-335 are as follows:

- Each entity that receives funding under this heading shall submit to the Office of the Chief Financial Officer of the District of Columbia and the Committees on Appropriations of the House of Representatives and Senate, a report on the activities to be carried out with such funds no later than March 15, 2005.
- In this and subsequent fiscal years the Office of the Chief Financial Officer shall conduct an annual audit of the funds expended by the Office and provide an annual financial report to: (i) the Mayor, (ii) the Council of the District of Columbia, (iii) the Office of the District of Columbia Treasurer, (iv) the Committees on Appropriations of the House of Representatives and Senate for these funds showing, by object class, the expenditures made and the purpose therefor.
- Not more than \$250,000 of the total amount appropriated for this program may be used for administrative expenses and training expenses related to the cost of the National Charter School Conference(s) to be hosted by December 2006; and no more than 5 percent of the funds appropriated for the direct loan fund may be used for administrative expenses related to the administration and annual audit of the direct loan, grant, and credit enhancement programs.

In response to the above, Federal law, DC Code 38-1833.01 states:

- (a) There is established within the District of Columbia, under the authority of the Mayor, an Office of Public Charter School Financing and Support.

**AUDIT OF THE DIRECT LOAN AND CREDIT ENHANCEMENT FUND (DLCEF)
REVENUE AND EXPENDITURE REPORT FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2020**

(b) The office shall have the following three functions:

- (1) To administer the credit enhancement fund for public charter schools under section 603(e) of the Student Loan Marketing Association Reorganization Act of 1996 (20 U.S.C. 1155(e)), subject to provisions of such section.
- (2) To administer the Direct Loan Fund for Charter School Improvement under section 38-1833-02, subject to the provision of such section.
- (3) To develop, implement and provide oversight for other public charter school financing programs and support services as requested by the Mayor and the Council of the District of Columbia.

(c) The functions described in subsection (b) of this section may be provided by the Office directly or under contract of a qualified provider.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The Revenue and Expenditure Report for the Direct Loan and Credit Enhancement Fund (DLCEF), reports on the Fund's results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A Fund is a separate entity with a self-balancing set of accounts.

The DLCEF is a special purpose fund which is used to account for revenues generated from interest income, service fees, Federal grants, and program income from the repayment of loans and credit enhancements. Expenditures consist of program expenditures related to the issuance and disbursement of direct loans and funded credit enhancements to the District's public charter schools to provide financing for construction of facilities or the renovation, repair, or alteration of existing properties. Administrative expenses are incurred to provide goods and services that support the operations of the fund.

Basis of Accounting

The DLCEF is accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus, revenues are

**AUDIT OF THE DIRECT LOAN AND CREDIT ENHANCEMENT FUND (DLCEF)
REVENUE AND EXPENDITURE REPORT FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2020**

recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means the amount is collectible within the current period or soon thereafter to be used to pay liabilities of the current period.

Note 3: Fund Reporting and Audit

The OPCSFS has compiled an annual Revenue and Expenditure Report since FY 2016 and the report was audited for the first time in FY 2017. The Public Law 108-335 requires the Direct Loan and Credit Enhancement Fund to provide an annual audited financial report. Loan disbursement and payment activity were recorded in the entity’s financial system of record (SOAR) System of Accounting and Reporting.

Note 4: Revenues

The Direct Loan Fund was funded initially by the Public Law 108-335 Appropriations Act to structure and provide loans to District of Columbia Public Charter Schools for the purpose of construction, acquisition, renovation, and maintenance of public charter school facilities. The Credit Enhancement Fund is authorized by Section 603(e) of the Student Loan Marketing Association Reorganization Act of 1996 (20 U.S.C. 1155(e)).

The legislation mandates the OPCSFS to administer the allocation of funding and review all requests for Credit Enhancement and Direct Loan funding. The OPCSFS performs an analysis and underwriting for each prospective project to deploy capital to promote the growth of high-performing public charter schools.

Note 5: Expenditures

Administrative Expenses: The appropriation law states that not more than \$250,000 of the total amount appropriated for this program may be used for administrative expenses and training expenses related to the cost of the National Charter School Conference(s) to be hosted by December 2006; and no more than 5 percent of the funds appropriated for the direct loan fund may be used for administrative expenses related to the administration and annual audit of the direct loan, grant, and credit enhancement programs. However, the OPCSFS did not charge administrative expenses to this fund in FY 2020.

**AUDIT OF THE DIRECT LOAN AND CREDIT ENHANCEMENT FUND (DLCEF)
REVENUE AND EXPENDITURE REPORT FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2020**

Note 6: Commitments and Contingencies

Non-Exchange Financial Guarantees

In accordance with Section 603(e)(3)(c)(iii) of the Student Loan Marketing Association Reorganization Act of 1996 (20 U.S.C. 1155(e)(3)(iii) and D.C. Code 38-1833.01, the District, through its Office of the State Superintendent of Education (OSSE), Office of Public Charter School Financing and Support, provides enhanced credit, lease guarantees, and access to financial assistance to eligible public charter schools for the acquisition, renovation, and/or construction of school facilities. As of September 30, 2020, the total outstanding guaranteed amount under credit enhancement facility agreements was \$5.730M.

In the event a public charter school defaults on its monetary obligations associated with its credit enhancement facility agreement, the District (OSSE) may at its sole discretion, cure the default on each school’s behalf. Provisions are included in each credit enhancement facility agreement for the school to repay the District for any amounts paid on its behalf or associated costs incurred in fulfilling the guarantee.

During fiscal year 2020, the District did not make any payments in connection with the credit enhancement facility agreements. In addition, as of September 30, 2020, no liability has been recorded in connection with these agreements because based on an assessment of relevant qualitative factors, these guarantees do not meet the “more likely than not” criterion. As such, the District has determined that it is not “more likely than not” that amounts will be paid under the outstanding guarantees.

Note 7: Subsequent Events

Fund’s Commitments in FY 2021 to the Date of the Report

In FY 2021 to the date of this report, OPCSFS issued five additional Direct Loans as follows:

Name of School	Direct Loan Amount	Maturity Date
Inspired Teaching Demonstration PCS	\$ 1,750,000.00	04/06/2026
DC Bilingual Public Charter School	2,000,000.00	03/17/2026
Learn DC Public Charter School	2,000,000.00	05/10/2026
Global Citizens Public Charter School	800,000.00	05/27/2024
Appletree Early Learning Public Charter School	1,878,962.00	06/16/2026
Total	\$ 8,428,962.00	