

DISTRICT OF COLUMBIA  
PUBLIC CHARTER SCHOOL BOARD

WASHINGTON, DC

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AUDIT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2006

**KENDALL, PREBOLA AND JONES**

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**Kendall, Prebola and Jones**  
**Certified Public Accountants**

District of Columbia Public  
Charter School Board  
3333 14<sup>th</sup> Street, NW, Suite 210  
Washington, DC 20010

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and major fund of the District of Columbia Public Charter School Board, a component unit of the government of the District of Columbia, as of and for the year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the District of Columbia Public Charter School Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of the District of Columbia Public Charter School Board, as of September 30, 2006, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 1(G) to the financial statements, the District of Columbia Public Charter School Board is not required to legally adopt an annual operating budget and as such a budgetary comparison has not been presented as Required Supplementary Information.

The District of Columbia Public Charter School Board has not presented the management's discussion and analysis that the Governmental Accounting Standards Board requires to supplement, although not required to be a part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006, on our consideration of the District of Columbia Public Charter School Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

*Kendall, Prebola and Jones*

Kendall, Prebola and Jones  
Certified Public Accountants

Bedford, Pennsylvania  
November 29, 2006

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and Cash Equivalents (Note 2)	\$ 1,509,359	\$ -	\$ 1,509,359
Repurchase Agreements (Note 2)	1,607,278	-	1,607,278
Accounts Receivable	16,936	-	16,936
Interest Receivable	3,644	-	3,644
Prepaid Expenses	<u>68,523</u>	<u>-</u>	<u>68,523</u>
Total Current Assets	<u>\$ 3,205,740</u>	<u>\$ -</u>	<u>\$ 3,205,740</u>
<u>Noncurrent Assets:</u>			
Net Capital Assets (Note 3)	<u>\$ 120,540</u>	<u>\$ -</u>	<u>\$ 120,540</u>
Total Noncurrent Assets	<u>\$ 120,540</u>	<u>\$ -</u>	<u>\$ 120,540</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 3,326,280</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 3,326,280</b></u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 37,459	\$ -	\$ 37,459
Accrued Expenses	27,768	-	27,768
Deferred Administrative Fees (Note 4)	189,782	-	189,782
Advances on Grants	<u>2,126,966</u>	<u>-</u>	<u>2,126,966</u>
<b>TOTAL LIABILITIES</b>	<u><b>\$ 2,381,975</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 2,381,975</b></u>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 120,540	\$ -	\$ 120,540
Unrestricted	<u>823,765</u>	<u>-</u>	<u>823,765</u>
<b>TOTAL NET ASSETS</b>	<u><b>\$ 944,305</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 944,305</b></u>

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Functions/Programs:	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Charter School Program	\$ 1,642,770	\$ 761,584	\$ 897	\$ -	\$ (880,289)	\$ -	\$ (880,289)
Education Investment	1,609,063	-	1,580,938	-	(28,125)	-	(28,125)
No Child Left Behind Act	1,125,338	-	1,091,567	-	(33,771)	-	(33,771)
Depreciation - Unallocated	28,599	-	-	-	(28,599)	-	(28,599)
Loss on Disposal of Assets - Unallocated	858	-	-	-	(858)	-	(858)
Total Governmental Activities	\$ 4,406,628	\$ 761,584	\$ 2,673,402	\$ -	\$ (971,642)	\$ -	\$ (971,642)
Business-Type Activities:							
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Government, Component Unit	\$ 4,406,628	\$ 761,584	\$ 2,673,402	\$ -	\$ (971,642)	\$ -	\$ (971,642)

## General Revenues:

Government Aid - Appropriations	\$ 975,000	\$ -	\$ 975,000
Interest Earnings	92,537	-	92,537
Total General Revenues	\$ 1,067,537	\$ -	\$ 1,067,537
Change in Net Assets	\$ 95,895	\$ -	\$ 95,895
Net Assets - Beginning of Year	848,410	-	848,410
Net Assets - End of Year	\$ 944,305	\$ -	\$ 944,305

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2006

	<u>Governmental Fund Type Special Revenue</u>	<u>Total</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents (Note 2)	\$ 1,509,359	\$ 1,509,359
Repurchase Agreements (Note 2)	1,607,278	1,607,278
Accounts Receivable	16,936	16,936
Interest Receivable	<u>3,644</u>	<u>3,644</u>
Total Current Assets	<u>\$ 3,137,217</u>	<u>\$ 3,137,217</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 3,137,217</b></u>	<u><b>\$ 3,137,217</b></u>
<u>LIABILITIES AND FUND BALANCES</u>		
<u>Liabilities:</u>		
Accounts Payable	\$ 37,459	\$ 37,459
Accrued Expenses	27,768	27,768
Deferred Administrative Fees (Note 4)	189,782	189,782
Advances on Grants	<u>2,126,966</u>	<u>2,126,966</u>
Total Liabilities	<u>\$ 2,381,975</u>	<u>\$ 2,381,975</u>
<u>Fund Balances:</u>		
Unreserved Fund Balance	<u>\$ 755,242</u>	<u>\$ 755,242</u>
Total Fund Balances	<u>\$ 755,242</u>	<u>\$ 755,242</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><b>\$ 3,137,217</b></u>	<u><b>\$ 3,137,217</b></u>

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 755,242

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and therefore are not reported as assets in governmental  
funds. The cost of the assets is \$221,715, and the accumulated  
depreciation is \$101,175. 120,540

Expenditures paid in the current year relating to periods of the  
subsequent year such as insurance, employee benefits, etc. are  
deferred charges in the government-wide statements. 68,523

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 944,305

(See Accompanying Notes and Auditor's Report)



DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

<u>Revenues:</u>	<u>Special Revenue</u>
Government Appropriations	\$ 975,000
Administrative Fees (Note 4)	761,584
Grants and Contributions	2,673,402
Interest Income	<u>92,537</u>
 Total Revenues	 <u>\$ 4,502,523</u>
 <u>Expenditures:</u>	
Current:	
Wages	\$ 851,130
Fringe Benefits (Note 10)	127,435
Temporary Help	26,773
Consultants (Note 11)	490,687
Consultants - NCLB (Note 11)	113,006
School Allocations	884,805
School Based Services	1,590,440
Media Buys	4,057
Legal and Audit	10,649
Travel, Meetings and Conferences	47,395
Office Rent and Utilities	147,619
Bookkeeping and Payroll Fees	18,929
Postage and Shipping	7,514
Printing and Duplicating	16,460
Publicity and Promotion	6,371
Telephone and Electronic Communications	33,208
Subscriptions, Books and Dues	4,067
Maintenance and Equipment Rental	10,410
Office Supplies and Expense	30,480
Insurance	4,908
Capital Outlay	<u>60,551</u>
 Total Expenditures	 <u>\$ 4,486,894</u>
 Excess of Revenues Over Expenditures	 \$ 15,629
Fund Balances, October 1, 2005	<u>739,613</u>
 Fund Balances, September 30, 2006	 <u>\$ 755,242</u>

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS                      \$    15,629

Amounts reported for governmental activities in the statement of  
activities are different because:

Capital outlays are reported in governmental funds as expenditures.

In the statement of activities the cost of assets is allocated over their  
estimated useful lives as depreciation expense. This is the amount  
by which capital outlays exceed depreciation and loss on disposal of  
fixed assets in the current period.

30,956

Deferred charges are reported in the governmental funds as expenditures.

However, in the government-wide financial statements such charges are  
recorded as prepaid expense. Prepaid expenses increased by this amount  
during the year.

49,310

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES                      \$ 95,895

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

The District of Columbia Public Charter School Board, along with the District of Columbia Board of Education, was authorized by the U.S. Congress in the District of Columbia School Reform Act of 1995 to grant charters to establish public charter schools and to provide oversight of such schools in Washington, DC. Legislation has established the term of the Board as perpetual in nature.

The Mayor of the District of Columbia appointed members of the District of Columbia Public Charter School Board from nominees presented to him by the U.S. Secretary of Education. The Board has been operating since February 1997 and has established a goal of helping to improve education for children, youth, and adults in the District of Columbia by chartering public schools that work.

The Board reviews applications to develop public charter schools; awards or denies requests for charters; monitors the operations of public charter schools, as well as the progress of students in those schools; and renews charters, or withdraws and revokes charters of schools that fall short of their goals. The Board receives local appropriations from the Government of the District of Columbia and administrative fees from the schools that it charters.

**Note 1 - Summary of Significant Accounting Policies:**

The Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the School Board are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain significant changes in the Statement include the following:

- Financial statements are prepared using full accrual accounting for all of the organizations activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

**A. Financial Reporting Entity -**

The criteria for including organizations as component units within the District of Columbia Public Charter School Board's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies: (Continued)

A. Financial Reporting Entity - (Continued)

- the organization is legally separate (can sue and be sued in their own name)
- the Board holds the corporate powers of the organization
- the Board appoints a voting majority of the organization's board
- the Board is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Board
- there is fiscal dependency by the organization on the Board

The Board has reviewed and evaluated the applicable criteria and determined that there are no agencies that should be included as component units in these financial statements. In addition, the Board has determined that it functions as a component unit of the Government of the District of Columbia.

B. Financial Statements - Government-Wide Statements:

The Board's financial statements include both government-wide (reporting the Board as a whole) and fund financial statements (reporting the Board's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. The Board's special revenue and general administrative services are classified as governmental activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Board's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. When applicable, the Board first utilizes restricted resources to finance qualifying activities. During the year ended September 30, 2006 the Board had no restricted net assets.

The government-wide Statement of Activities reports both the gross and net cost of each of the Board's functions and business-type activities. The functions are also supported by general government revenues (intergovernmental revenues, interest, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenues (intergovernmental revenues, interest, etc.).

The Board does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Board as an entity and the change in the Board's net assets resulting from the current year's activities.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Financial Statements - Fund Financial Statements -

The accounts of the District of Columbia Public Charter School Board are organized on the basis of a fund (a special revenue fund as explained below) which is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in the fund based upon the purpose for which the funding is to be spent.

The following fund type is maintained by the District of Columbia Public Charter School Board.

Governmental Fund Type:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental fund of the Board:

1. Special Revenue

A special revenue fund is used to account for the operations of the Board which is funded by a specific revenue source that is restricted to expenditures for the specified purpose of the organization.

D. Measurement Focus and Basis of Accounting -

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Both governmental and business-type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The special revenue fund is accounted for using a current financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual: i.e. when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of revenues.

Revenues from federal, state and other grants designated for payment of specific Board expenditures are recognized when the related expenditures are incurred. Any excess of revenues or expenditures at the year end is recorded as deferred revenue or a receivable.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies: (Continued)

E. Grants -

Grants resulted from voluntary non-exchange transactions with the District of Columbia and the District of Columbia Chamber of Commerce. In accordance with GASB Statement No. 33 "Accounting and Financial Reporting for Non-exchange Transactions", revenues are recognized when all eligibility requirements have been met. The eligibility requirements for these grants consist of the District of Columbia Public Charter School Board incurring reimbursable expenses under the terms and conditions of the appropriate grantor.

Cash receipts in excess of costs incurred on grants are reflected as advances on grants until they are expended for the purpose of the grant, at which time they are recognized as grant revenue.

F. Capital Assets -

Capital assets purchased or acquired with an original cost of \$300 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Leasehold Improvements	5-40 years
Computers and Software	3-5 years
Furniture and Fixtures	5-10 years
Machinery and Equipment	5-7 years

From time to time, assets are purchased by the Board on behalf of a newly chartered public school. The policy of the Board is to transfer title to that charter school at the time of purchase. As such, these purchases are expensed at the time of acquisition and not capitalized in the financial statements.

G. Budgets and Budgetary Accounting -

GASB No. 34 requires governmental entities that legally adopt an annual budget to present as Required Supplementary Information a schedule with budget to actual comparisons. The purpose of this budgetary comparison is to demonstrate the government's compliance in obtaining and using financial resources in accordance with its legally adopted budget.

The District of Columbia Public Charter School Board is not required by law to formally prepare and adopt an annual operating budget, and as such a budget comparison has not been presented in these financial statements.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments:

In accordance with state law, all uninsured deposits of Board funds in financial institutions must be secured with acceptable collateral equal to at least 102% of the total of the District of Columbia funds held by the eligible financial institution. Acceptable collateral includes bonds, bills, or notes for which the interest and principle are guaranteed by the United States government; securities of a quasi-governmental corporation; investment grade obligations of the District or a state or local government; or collateralized mortgage obligations. As required by DC Code Title 47.351.02(c), the pledging financial institution is required to place collateral in a joint custody account established for the benefit of the District at the Federal Reserve Bank or in an independent third-party insured institution.

Deposits and investments of the Board are limited by state law to the following:

- (1) Bonds, bills, notes, or other obligations issued by the United States government;
- (2) Federally insured negotiable certificates of deposit or other insured or uninsured evidences of deposit at a financial institution;
- (3) Bonds, bills, notes, mortgage-backed or asset-backed securities, or other obligations of a quasi-governmental corporation;
- (4) Prime banker acceptances that do not exceed 270 days maturity;
- (5) Prime commercial paper that does not:
  - (a) Have a maturity that exceeds 180 days; and
  - (b) Exceed 10% of the outstanding commercial paper of the issuing corporation at the time of purchase.
- (6) Investment grade obligations of the District or a state or local government;
- (7) Repurchase agreements for the sale or purchase of securities by the District under the condition that, after a stated period of time, the original seller or purchaser will buy back or sell the securities at an agreed price that shall include interest;
- (8) Investment grade asset-backed or mortgaged-backed securities; or
- (9) Money market funds registered with the Securities and Exchange Commission and which meet the requirements of rule 2(a)(7) of the Investment Company Act of 1940, approved August 22, 1940.

Cash at September 30, 2006 consisted of interest bearing and non-interest bearing accounts. This was the nature of accounts that were maintained throughout the year. All of these deposits are carried at cost. The carrying amount of deposits is separately displayed on the Balance Sheet as "Cash and Cash Equivalents". At September 30, 2006, the carrying amount of the Board's deposits was \$1,509,359 and the bank balance was \$1,878,985. A summary of bank balances are as follows:

Non-Interest Bearing - Checking	\$ 626,099
Interest Bearing - Checking	98,395
Interest Bearing - Money Market	609,379
Certificates of Deposit	<u>545,112</u>
Total	<u>\$ 1,878,985</u>

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments: (Continued)

*Custodial Credit Risk-Deposits* - Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. The Board does not have a deposit policy for custodial credit risk. As of September 30, 2006, \$903,120 of the Board's bank balance of \$1,878,985 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 903,120</u>
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For the year ended September 30, 2006, there was an instance of noncompliance with the District of Columbia Statute which requires funding in excess of Federal Depository Insurance to have collateral pledged by the depository. The amount identified as uninsured and uncollateralized represents funds held by banks that are in excess of the Federal Depository Insurance Limits and are not collateralized by the banks.

*Credit Risk* - In compliance with the Board's investment policy, as of September 30, 2006, the Board minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities, limiting Bank Certificates of Deposits to less than \$100,000 covered by Federal Depository Insurance (FDIC), investing in money market funds that were rated Aaa by Moody's Investor Services and limiting the securities underlying repurchase agreements to U.S. Government Agencies.

Following is the credit quality distribution with credit exposure expressed as a percentage of total deposits and investments:

	<u>Credit Risk</u>	<u>Percentage of Investment</u>
United Bank Money Market	Aaa Pa	19.5%

Repurchase Agreements

The Board has entered into repurchase agreements with both United Bank and City First Bank of DC in which the banks agreed to transfer to the Board an interest in securities issued or guaranteed by the United States or an agency thereof against the transfer of funds from the Board to the respective banks. Per the repurchase agreements, funds in excess of \$100,000 are transferred out on a daily basis. The amount of funds transferred back the next day includes the original purchase price plus interest earned.

*Custodial Credit Risk-Investments.* For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Board would not be able to recover the value of its investments or collateral securities that are in possession of an outside party (custodian).

As of September 30, 2006, the balance of the City First repurchase agreement account was \$160,008. These investments are considered to be held in the name of the Board. The counterparty has identified the Board as the pledgee and because of the use of a book entry system the counterparty is holding an account designated as a Board account.



DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments: (Continued)

As of September 30, 2006, the balance of the United Bank repurchase agreement account was \$1,447,270. The securities underlying the repurchase agreement held by the counterparty are not in the name of the Board.

Note 3 - Capital Assets:

Capital asset activity for the year ended September 30, 2006 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital Assets:</b>				
Leasehold Improvements	\$ 8,877	\$ 24,409	\$ -	\$ 33,286
Computers and Software	64,639	32,043	(3,961)	92,721
Furniture and Fixtures	62,077	4,099	(1,754)	64,422
Machinery and Equipment	<u>31,286</u>	<u>-</u>	<u>-</u>	<u>31,286</u>
<b>Total Capital Assets</b>	<b>\$ 166,879</b>	<b>\$ 60,551</b>	<b>\$ (5,715)</b>	<b>\$ 221,715</b>
<b>Less Accumulated Depreciation for:</b>				
Leasehold Improvements	\$ (148)	\$ (1,677)	\$ -	\$ (1,825)
Computers and Software	(40,979)	(16,069)	3,962	(53,086)
Furniture and Fixtures	(13,353)	(6,564)	895	(19,022)
Machinery and Equipment	<u>(22,815)</u>	<u>(4,427)</u>	<u>-</u>	<u>(27,242)</u>
<b>Total Accumulated Depreciation</b>	<b>\$ (77,295)</b>	<b>\$ (28,737)</b>	<b>\$ 4,857</b>	<b>\$ (101,175)</b>
<b>Total Capital Assets, Net</b>	<b>\$ 89,584</b>	<b>\$ 31,814</b>	<b>\$ (858)</b>	<b>\$ 120,540</b>

Note 4 - Administrative Fees:

As authorized by the District of Columbia School Reform Act, the Charter School Board receives an administrative fee from each Charter School at an amount of one half of one percent of the annual District per pupil funding allocation. These fees are recognized as revenue in the fiscal year to which the fees apply, which is based on the Charter School year of July 1, through June 30. During the year ended September 30, 2006, \$761,584 of administrative fees were earned. In addition, \$189,782 of fees were received which relate to the ensuing fiscal year and as such have been recognized as Deferred Administrative Fees in these financial statements.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 5 - Commitments:

The Board is committed under a non-cancelable operating lease to make future minimum payments for office space usage over the next five years and each five year period thereafter as follows:

Year Ending September 30

2007	\$ 173,384
2008	177,711
2009	182,143
2010	186,696
2011	760,679
2012-2015	<u>191,368</u>

Total Future Minimum Lease Payments	<u>\$1,671,981</u>
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The District of Columbia Public Charter School Board leases its office space under an operating lease, which was effective July 15, 2005 and expires on June 30, 2015. The Board is obligated to pay a proportion of the annual "Excess Operating Costs" and "Excess Real Estate Taxes" on the leased property. An estimate of the annual increase in operating costs and real estate taxes has not been provided for in the above. Future minimum rental payments over the next five years are noted above. Rental expense for the year ended September 30, 2006 was \$144,388.

The Board has an irrevocable unsecured standby letter of credit in the amount of \$14,007 obtained in lieu of a security deposit under this operating lease. This letter of credit is scheduled to expire on June 1, 2007.

Note 6 - Contingencies:

A putative class action suit was filed against the District of Columbia Public Charter School Board and seventeen additional named defendants. The complaint alleges that the Board violated the D.C. School Reform Act when it issued a charter to a particular charter school. The Board and the additional named defendants filed a Motion to Dismiss on April 18, 2005. On July 3, 2006, the court dismissed the complaint as it applied to the Board. On November 20, 2006, the plaintiff filed an amended complaint and a motion to add two Board employees as additional defendants. As of the date of this audit report, a ruling has not yet been issued on the Motion. Management, through legal counsel has not been able to conclude as to the likelihood of an unfavorable outcome.

Note 7 - Economic Dependency:

The District of Columbia Public Charter School Board derived twenty-one percent (21%) of its current year revenues from appropriations as enacted by the District of Columbia Appropriation Bill. Administrative fees received from one charter school represent four percent (4%) of current year revenues.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 8 - Pension Plan:

The District of Columbia Public Charter School Board provides pension benefits for its employees through a defined contribution 403(b) retirement plan which is currently administered by TIAA-Creff. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Provisions of the plan allow for employees to contribute up to \$15,000 (and catch-up contributions of \$5,000) per year. The Board contributes a match of 100% up to the first 3% of salary. No contributions are made by the Board for employees' contributions in excess of 3%. On the plan effective date, which began in June 1999, all current employees were eligible to participate in the retirement plan. All future employees will be eligible to participate upon hiring. Plan provisions and contribution requirements are established and may be amended by the board members of the District of Columbia Public Charter School Board. There is no unfunded past service liability.

The Board's contributions on all covered employees amounted to \$17,533 and employee contributions were \$51,198.

Note 9 - Deferred Compensation Plan:

The District of Columbia Public Charter School Board has elected to establish a deferred compensation plan for the executive director under the provisions of Internal Revenue Code (IRC) Section 457. This plan became effective January 1, 2003 and requires the organization to make non-elective quarterly contributions to the plan in the amount of \$915. Total employer contributions made during the year ended September 30, 2006 was \$3,660.

Note 10 - Fringe Benefits:

Fringe Benefits incurred for the year is comprised of the following:

Social Security	\$ 61,322
Unemployment	5,542
Health Insurance	30,839
Retirement	21,193
Workers Compensation	5,602
Life Insurance	<u>2,937</u>
Total Fringe Benefits	<u>\$ 127,435</u>

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 11 - Consulting:

Consulting expense incurred for the year is comprised of the following:

Application Reviews	\$ 34,275
Compliance Audits	13,819
Contract Reviews	1,000
Standards Training	25,816
Program Development Reviews	110,300
SAT-9 Monitoring	11,603
School Closing	14,475
Special Education Training	52
Special Education Reviews	19,200
Financial Reviews	17,179
Technology	69,201
Governance Project	82,380
Middle School Project	19,418
Other	<u>71,969</u>
 Total Consulting	 <u>\$ 490,687</u>

No Child Left Behind:

Video/Radio Production	\$ 9,300
Other	60,745
SAT-9 Data Analysis	9,425
Data Storage	<u>33,536</u>
 Total NCLB Consulting	 <u>\$ 113,006</u>

**Kendall, Prebola and Jones**  
**Certified Public Accountants**

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Charter School Board  
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Washington, DC 20010

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities and major fund of the District of Columbia Public Charter School Board, a component unit of the government of the District of Columbia as of and for the year ended September 30, 2006, and have issued our report thereon dated November 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District of Columbia Public Charter School Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District of Columbia Public Charter School Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. This item is disclosed in the accompanying schedule of findings and questioned costs as item 2004-1.

We noted another matter that was reported to management of the District of Columbia Public Charter School Board in a separate letter dated November 29, 2006.

This report is intended solely for the information of management and local awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Kendall, Prebola and Jones*

Kendall, Prebola and Jones  
Certified Public Accountants

Bedford, Pennsylvania  
November 29, 2006

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

2004-1 Statement of Condition - As of September 30, 2005 there was \$2,055,423 of cash held in interest bearing bank accounts at two depositories that were not collateralized with securities held by the pledging financial institution.

Status of Condition - In the current year, funds held at one bank was not being collateralized. As such this continues to be a condition in the current year.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

2004-1 Statement of Condition - As of September 30, 2006 there was \$903,120 of cash held in interest bearing bank accounts at one depository that was not collateralized with securities held by the pledging financial institution.

Questioned Costs \$ -0-

Criteria - According to the District of Columbia Statute, cash maintained in bank accounts which exceed Federal Depository Insurance is required to be collateralized by the pledging financial institution.

Effect of Condition - The Board is at risk of loss for any balance of cash that is maintained at a financial institution that is not either insured or collateralized.

Cause of Condition - It was the belief of management that the remaining funds deposited into interest bearing money market accounts were collateralized by the financial institution. It has since been determined that proper collateralization was not obtained.

Recommendation - We recommend that the Board contact the financial institution where collateralization is lacking in order to request the proper pledging of securities or to set up a repurchase agreement account.

Views of Responsible Officials - All deposit accounts will be maintained at commercial banks classified as "well capitalized" by their respective bank regulators. Holdings of excess funds that are neither collateralized nor fully insured should only be temporary, and as needed, such funds will be invested overnight in eligible securities under repurchase agreements with the banks involved.