

DISTRICT OF COLUMBIA  
PUBLIC CHARTER SCHOOL BOARD

WASHINGTON, DC

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AUDIT REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

**KENDALL, PREBOLA AND JONES**

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## INDEX

Independent Auditor's Report	1-2
<i>Government-wide Financial Statements:</i>	
Exhibit A - Statement of Net Assets, September 30, 2005	3
Exhibit B - Statement of Activities, For the Year Ended September 30, 2005	4
<i>Fund Financial Statements:</i>	
Exhibit C - Balance Sheet - Governmental Funds, September 30, 2005	5-6
Exhibit D - Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, For the Year Ended September 30, 2005	7-8
Notes to Financial Statements	9-17
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18-19
Status of Prior Year Findings and Questioned Costs	20
Schedule of Findings and Questioned Costs	21

**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, 2005, 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, 2005, 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 December 22, 2005, 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  
December 22, 2005

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2005

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Current Assets:</u>			
Cash and Cash Equivalents (Note 2)	\$ 2,754,002	\$ -	\$ 2,754,002
Accounts Receivable	6,912	-	6,912
Interest Receivable	2,253	-	2,253
Prepaid Expenses	<u>19,213</u>	<u>-</u>	<u>19,213</u>
Total Current Assets	<u>\$ 2,782,380</u>	<u>\$ -</u>	<u>\$ 2,782,380</u>
<u>Noncurrent Assets:</u>			
Deposits	\$ 28,014	\$ -	\$ 28,014
Net Capital Assets (Note 4)	<u>89,584</u>	<u>-</u>	<u>89,584</u>
Total Noncurrent Assets	<u>\$ 117,598</u>	<u>\$ -</u>	<u>\$ 117,598</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 2,899,978</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 2,899,978</b></u>
 <u>LIABILITIES</u>			
Accounts Payable	\$ 181,701	\$ -	\$ 181,701
Accrued Expenses	5,603	-	5,603
Deferred Administrative Fees (Note 5)	175,015	-	175,015
Advances on Grants	<u>1,689,249</u>	<u>-</u>	<u>1,689,249</u>
<b>TOTAL LIABILITIES</b>	<u><b>\$ 2,051,568</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 2,051,568</b></u>
 <u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 89,584	\$ -	\$ 89,584
Unrestricted	<u>758,826</u>	<u>-</u>	<u>758,826</u>
<b>TOTAL NET ASSETS</b>	<u><b>\$ 848,410</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 848,410</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, 2005

	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
<b>Functions/Programs:</b>						
Governmental Activities:						
Charter School Program	\$ 1,256,355	\$ 616,622	\$ -	\$ (579,733)	\$ -	\$ (579,733)
Governance Project	25,000	-	25,000	-	-	-
No Child Left Behind Act	954,740	-	940,047	(14,693)	-	(14,693)
Depreciation - Unallocated	18,801	-	-	(18,801)	-	(18,801)
Loss on Disposal of Assets - Unallocated	51,353	-	-	(51,353)	-	(51,353)
Total Governmental Activities	\$ 2,306,249	\$ 616,622	\$ 1,025,047	\$ (664,580)	\$ -	\$ (664,580)
Business-Type Activities:	-	-	-	-	-	-
Total Government, Component Unit	\$ 2,306,249	\$ 616,622	\$ 1,025,047	\$ (664,580)	\$ -	\$ (664,580)

General Revenues:

Government Aid - Appropriations	\$ 750,000	\$ -	\$ 750,000
Interest Earnings	31,393	-	31,393
Total General Revenues	\$ 781,393	\$ -	\$ 781,393
Change in Net Assets	\$ 116,813	\$ -	\$ 116,813
Net Assets - Beginning of Year	731,597	-	731,597
Net Assets - End of Year	\$ 848,410	\$ -	\$ 848,410

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2005

	<u>Governmental Fund Type Special Revenue</u>	<u>Total</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents (Note 2)	\$ 2,754,002	\$ 2,754,002
Accounts Receivable	6,912	6,912
Interest Receivable	<u>2,253</u>	<u>2,253</u>
 Total Current Assets	 <u>\$ 2,763,167</u>	 <u>\$ 2,763,167</u>
<u>Other Assets:</u>		
Deposits	<u>\$ 28,014</u>	<u>\$ 28,014</u>
 Total Other Assets	 <u>\$ 28,014</u>	 <u>\$ 28,014</u>
 TOTAL ASSETS	 <u>\$ 2,791,181</u>	 <u>\$ 2,791,181</u>
<u>LIABILITIES AND FUND BALANCES</u>		
<u>Liabilities:</u>		
Accounts Payable	\$ 181,701	\$ 181,701
Accrued Expenses	5,603	5,603
Deferred Administrative Fees (Note 5)	175,015	175,015
Advances on Grants	<u>1,689,249</u>	<u>1,689,249</u>
 Total Liabilities	 <u>\$ 2,051,568</u>	 <u>\$ 2,051,568</u>
<u>Fund Balances:</u>		
Unreserved Fund Balance	\$ 711,599	\$ 711,599
Reserved Fund Balance (Note 3)	<u>28,014</u>	<u>28,014</u>
 Total Fund Balances	 <u>\$ 739,613</u>	 <u>\$ 739,613</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 2,791,181</u>	 <u>\$ 2,791,181</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, 2005

<u>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</u>	\$ 739,613
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 \$166,879, and the accumulated depreciation is \$77,295	89,584
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.	<u>19,213</u>
<u>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</u>	<u>\$ 848,410</u>

(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, 2005

<u>Revenues:</u>	<u>Special Revenue</u>
Government Appropriations	\$ 750,000
Administrative Fees (Note 5)	616,622
Grants	1,025,047
Interest Income	<u>31,393</u>
 Total Revenues	 <u>\$ 2,423,062</u>
 <u>Expenditures:</u>	
Current:	
Wages	\$ 724,305
Fringe Benefits (Note 11)	96,031
Temporary Help	5,273
Consultants (Note 12)	416,371
Consultants - NCLB (Note 12)	407,934
School Allocations	306,997
Media Buys	18,736
Legal and Audit	5,092
Travel, Meetings and Conferences	82,476
Office Rent and Utilities	65,619
Bookkeeping and Payroll Fees	10,440
Postage and Shipping	9,656
Printing and Duplicating	25,602
Publicity and Promotion	1,024
Telephone and Electronic Communications	18,985
Subscriptions, Books and Dues	3,415
Maintenance and Equipment Rental	16,744
Office Supplies and Expense	13,052
Insurance	4,931
Capital Outlay	<u>64,033</u>
 Total Expenditures	 <u>\$ 2,296,716</u>
 Excess of Revenues Over Expenditures	 \$ 126,346
Fund Balances, October 1, 2004	<u>613,267</u>
 Fund Balances, September 30, 2005	 <u>\$ 739,613</u>

(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, 2005 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, the District of Columbia Chamber of Commerce and a private foundation. 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 \$250 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	40 years
Computers and Software	3-5 years
Furniture and Fixtures	7-10 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 - Cash and Cash Equivalents:

Cash at September 30, 2005 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 are separately displayed on the Balance Sheet as "Cash and Cash Equivalents". At September 30, 2005, the carrying amount of the Board's deposits were \$2,754,002 and the bank balance was \$2,852,558. A summary of bank balances are as follows:

Non-Interest Bearing - Checking	\$ 70,674
Interest Bearing - Checking	213,606
Interest Bearing - Money Market	2,041,817
Certificates of Deposit	<u>526,461</u>
Total	<u>\$ 2,852,558</u>

*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, 2005, \$2,055,423 of the Board's bank balance of \$2,852,558 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 2,055,423</u>
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For the year ended September 30, 2005, 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.

Note 3 - Nature and Purpose of Reservations of Fund Balance:

As a requirement of the office space rental lease agreement, an amount of \$28,014 is being held as a security deposit. This security deposit is offset by a fund balance reserve which indicates that it does not constitute "available spendable resources". Although a reservation of fund balance is not required, this reservation is shown for management purposes only.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 4 - Capital Assets:

Capital asset activity for the year ended September 30, 2005 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Leasehold Improvements	\$ 51,640	\$ 8,877	\$ (51,640)	\$ 8,877
Computers and Software	105,794	1,300	(42,455)	64,639
Furniture and Fixtures	19,102	42,975	-	62,077
Machinery and Equipment	<u>31,286</u>	<u>-</u>	<u>-</u>	<u>31,286</u>
 Total Capital Assets	 <u>\$ 207,822</u>	 <u>\$ 53,152</u>	 <u>\$ (94,095)</u>	 <u>\$ 166,879</u>
Less Accumulated Depreciation for:				
Leasehold Improvements	\$ (5,379)	\$ -	\$ 5,231	\$ (148)
Computers and Software	(66,473)	-	25,494	(40,979)
Furniture and Fixtures	(10,903)	(2,450)	-	(13,353)
Machinery and Equipment	<u>(18,364)</u>	<u>(4,451)</u>	<u>-</u>	<u>(22,815)</u>
 Total Accumulated Depreciation	 <u>\$ (101,119)</u>	 <u>\$ (6,901)</u>	 <u>\$ 30,725</u>	 <u>\$ (77,295)</u>
 Other Capital Assets, Net	 <u>\$ 106,703</u>	 <u>\$ 46,251</u>	 <u>\$ (63,370)</u>	 <u>\$ 89,584</u>

Note 5 - 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 school budget. 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, 2005, \$616,622 of administrative fees were earned. In addition, \$175,015 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.

Note 6 - 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:

<u>Year Ending September 30</u>	
2006	\$ 169,142
2007	173,384
2008	177,711
2009	182,143
2010	186,696
2011-2015	<u>952,047</u>
 Total Future Minimum Lease Payments	 <u>\$1,841,123</u>



DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 6 - Commitments: (Continued)

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 following. Future minimum rental payments over the next five years are noted above. The required monthly rental payment which was to begin on July 15, 2005 was abated until November 15, 2005. As such, there was no rental expense for the year ended September 30, 2005 related to this lease.

The Board has an irrevocable unsecured standby letter of credit in the amount of \$28,014 obtained in lieu of a security deposit under this operating lease. This letter of credit is scheduled to expire on December 10, 2005. The Board made a rental deposit in the amount of \$28,014 prior to the letter of credit being obtained. The monies on deposit are to be returned by the landlord.

The Board leased its original office space prior to relocating under an operating lease which expired on July 31, 2005. This lease was not renewed. Lease rental expense for the year related to this lease was \$53,019.

Note 7 - 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. As of the date of this audit report, a ruling has not yet been issued on the Motion to Dismiss. Management, through legal counsel has not been able to conclude as to the likelihood of an unfavorable outcome.

Note 8 - Economic Dependency:

The District of Columbia Public Charter School Board derived thirty-one percent (31%) of its current year revenues from appropriations as enacted by the District of Columbia Appropriation Bill. Administrative fees received from one charter school represents seven percent (7%) of current year revenues.

Note 9 - Pension Plan:

The District of Columbia Public Charter School Board provides pension benefits for its employees through a defined contribution retirement plan (Simple IRA) 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 \$10,000 (catch-up contributions of \$2,000) 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

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 9 - Pension Plan: (Continued)

requirements are established and may be amended by the board members of the District of Columbia Public Charter School Board.

The Board's contributions on all covered employees amounted to \$14,844 and employee contributions were \$32,913.

Note 10 - 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, 2005 was \$3,660.

Note 11 - Fringe Benefits:

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

Social Security	\$ 54,559
Unemployment	2,407
Health Insurance	16,417
Retirement	18,504
Workers Compensation	2,502
Life Insurance	842
De Minimus	<u>800</u>
Total Fringe Benefits	<u>\$ 96,031</u>

Note 12 - Consulting:

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

Application Reviews	\$ 34,119
Compliance Audits	9,241
Contract Reviews	3,000
Program Development Reviews	86,771
SAT-9 Monitoring	109,634
School Closing	340
Special Education Training	9,200
Special Education Reviews	150
Financial Reviews	11,065
Technology	44,917
Other	<u>107,934</u>
Total Consulting	<u>\$ 416,371</u>

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 12 - Consulting: (Continued)

No Child Left Behind:

Video/Radio Production	\$ 181,000
Other	70,645
RFP Consultants	2,400
Data Development	43,210
Technology	35,859
SAT-9 Data Analysis	33,795
Data Storage	<u>41,025</u>
 Total NCLB Consulting	 <u>\$ 407,934</u>

**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

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, 2005, and have issued our report thereon dated December 22, 2005. 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.

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 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.

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 assurance 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.

We noted certain other matters that were reported to management of the District of Columbia Public Charter School Board in a separate letter dated December 22, 2005.

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  
December 22, 2005

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

2004-1 Statement of Condition - As of September 30, 2004 there was \$46,477 of cash held in interest bearing bank accounts at one depository that was not collateralized with securities held by the pledging financial institution.

Status of Condition - In the current year, funds held at two separate banks were not being collateralized. As such this continues to be a condition in the current year.

2004-2 Statement of Condition - The workers compensation insurance policy that was maintained by the District of Columbia Public Charter School Board lapsed on January 1, 2004 and was not renewed.

Status of Condition - During the year ended September 20, 2005, the workers compensation policy was renewed and considered to be in effect. As such, this has not been repeated as 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, 2005

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 separate depositories that were not collateralized with securities held by the pledging financial institutions.

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 institutions where collateralization is lacking in order to request the proper pledging of securities.

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. These repurchase agreements have been established at the respective banks subsequent to the date of this report.