

DISTRICT OF COLUMBIA
PUBLIC CHARTER SCHOOL BOARD

WASHINGTON, DC

AUDIT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2002

KENDALL, PREBOLA AND JONES

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Kendall, Prebola and Jones
Certified Public Accountants

District of Columbia Public
Charter School Board
1436 U Street, NW, Suite 401
Washington, DC 20009

Board Members:

We have audited the accompanying financial statements 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, 2002, 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 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 District of Columbia Public Charter School Board, as of September 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Kendall, Prebola and Jones

Certified Public Accountants

Bedford, Pennsylvania
December 17, 2002

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 2002

	<u>Governmental</u> <u>Fund Type</u>	<u>Account</u> <u>Group</u>	<u>Totals</u>
	<u>Special</u> <u>Revenue</u>	<u>General</u> <u>Fixed Asset</u>	<u>(Memorandum</u> <u>Only)</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash (Note 2)	\$ 573,884	\$ -	\$ 573,884
Accounts Receivable (Note 3)	<u>10,762</u>	<u>-</u>	<u>10,762</u>
Total Current Assets	<u>\$ 584,646</u>	<u>\$ -</u>	<u>\$ 584,646</u>
<u>Other Assets:</u>			
Fixed Assets (Note 4)	\$ -	\$ 186,998	\$ 186,998
Deposits	<u>4,812</u>	<u>-</u>	<u>4,812</u>
Total Other Assets	<u>\$ 4,812</u>	<u>\$ 186,998</u>	<u>\$ 191,810</u>
TOTAL ASSETS	<u>\$ 589,458</u>	<u>\$ 186,998</u>	<u>\$ 776,456</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>Liabilities:</u>			
Accounts Payable	\$ 16,720	\$ -	\$ 16,720
Accrued Expenses	14,705	-	14,705
Advance of Appropriation	120,000	-	120,000
Advance on Grants	<u>47,488</u>	<u>-</u>	<u>47,488</u>
Total Liabilities	<u>\$ 198,913</u>	<u>\$ -</u>	<u>\$ 198,913</u>
<u>Fund Balances and Other Credits:</u>			
Investment in General Fixed Assets	\$ -	\$ 186,998	\$ 186,998
Unreserved Fund Balance	385,733	-	385,733
Fund Balance Reserved for Deposits	<u>4,812</u>	<u>-</u>	<u>4,812</u>
Total Fund Balances and Other Credits	<u>\$ 390,545</u>	<u>\$ 186,998</u>	<u>\$ 577,543</u>
TOTAL LIABILITIES, FUND BALANCES AND OTHER CREDITS	<u>\$ 589,458</u>	<u>\$ 186,998</u>	<u>\$ 776,456</u>

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2002

Revenues:

Local Appropriations	\$ 480,000
Administrative Fees (Note 5)	330,156
Grants	135,386
Interest Income	<u>15</u>
 Total Revenues	 <u>\$ 945,557</u>

Expenditures:

Current:

Charter School Program:	
Wages	\$ 240,917
Fringe Benefits	36,553
Temporary Help	390
Professional Development	1,569
Consultants	142,084
Subcontracts	89,498
Legal and Audit	5,793
Travel, Meetings and Conferences	59,762
Office Rent and Utilities	69,475
Bookkeeping and Payroll Fees	13,944
Postage and Shipping	6,812
Printing and Duplicating	6,283
Telephone	11,037
Electronic Communications	4,722
Subscriptions, Books and Dues	3,929
Student Test Booklets	19,992
Maintenance and Equipment Rental	7,504
Office Supplies and Expense	7,833
Insurance	3,382
Capital Outlay	<u>27,914</u>
 Total Expenditures	 <u>\$ 759,395</u>
 Excess of Revenues Over Expenditures	 \$ 186,162
Fund Balance, October 1, 2001	<u>204,383</u>
 Fund Balance, September 30, 2002	 <u>\$ 390,545</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 D.C. 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:

A. Reporting Entity -

In accordance with GASB Statement No. 14 "The Financial Reporting Entity," the District of Columbia Public Charter School 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.

Generally, component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Furthermore, the primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

The District of Columbia Public Charter School Board is considered to be accountable for its fiscal matters to the Government of the District of Columbia. This item was considered in determining that the District of Columbia Public Charter School Board functions as a component unit of the Government of the District of Columbia.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

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

B. Basis of Presentation - Fund Accounting -

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) and account group, each of 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. An account group is used to establish accounting control and accountability for the Board's General Fixed Assets.

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

Governmental Fund Type:

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.

Account Group:

The account group is used to establish accounting control and accountability for general fixed assets.

The account group is not a fund. The account group is designed to measure only the financial position of the account group and not to provide results of operations.

1. General Fixed Assets Account Group

The general fixed asset account group is used to record the investment of the Board in personal property. Fixed assets are recorded as expenditures at the time of purchase and such assets are capitalized at cost in the general fixed assets group of accounts. The Board maintains a detailed record of fixed assets, and makes adjustments accordingly based on renewals and disposals. Depreciation of fixed assets is not considered.

C. 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,

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

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

C. Measurement Focus and Basis of Accounting - (Continued)

regardless of the measurement focus applied. 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 accrued 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.

D. Grants -

Grant revenues result primarily from the D.C. Government and a separate foundation. The grants are subject to audit by various grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed 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.

E. Budgets and Budgetary Accounting -

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 to actual comparison has not been presented in these financial statements.

F. Total Columns on Combined Statements -

These columns captioned Memorandum Only are presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles.

Note 2 - Cash:

Cash at September 31, 2002 consisted of interest bearing and non-interest bearing accounts with the following carrying balances:

Non-Interest Bearing - Checking	\$ 253,369
Interest Bearing - Savings	50,001
Interest Bearing - Money Market	<u>270,514</u>
Total	<u>\$ 573,884</u>

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash: (Continued)

In accordance with GASB #3, three categories of credit risk are defined. Category 1 - includes deposits insured or collateralized with securities held by the D.C. Public Charter School Board or by its agent in the Board's name. Category 2 - includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name. Category 3 - includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Board's name. A summary of the bank balances are as follows:

Category 1 - Insured (FDIC)	\$ 200,000
Category 2 - Collateralized with Securities Held by the Pledging Financial Institution in the Entity's Name	210,321
Uninsured and Uncollateralized	220,515
Total	\$ 630,836

Due to increased cash flows at certain times during the year, the D.C. Public Charter School Board's deposits for which securities were held by the pledging financial institution may have increased significantly. As a result, the amounts that were in Category 2 at those times may have been substantially higher than at year end.

For the year ended September 30, 2002, 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 a bank that are in excess of the Federal Depository Insurance Limits and are not collateralized by the bank. Management is currently in the process of obtaining pledged securities from the financial institution to collateralize excess amounts.

Note 3 - Accounts Receivable:

Accounts Receivable are current and considered fully collectible as presented by management. Balances as of September 30, 2002, consisted of the following:

Charter Schools	\$ 9,596
Other Recoverable Disbursements	1,166
Total	\$ 10,762

Note 4 - Changes in General Fixed Assets:

The changes in the general fixed asset account group during the year ended September 30, 2002 was as follows:

Balance, October 1, 2001	\$ 174,082
Current Year Purchases	27,914
Current Year Dispositions	(14,998)
Balance, September 30, 2002	\$ 186,998

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

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. During the year ended September 30, 2002, \$330,156 of administrative fees were earned.

Note 6 - Commitments:

The Board is committed under a non-cancelable operating lease to make future minimum payments for office space usage as follows:

<u>Year Ending September 30</u>	
2003	\$ 60,275
2004	61,480
2005	52,085
2006	-
2007	<u>-</u>
Total Future Minimum Lease Payments	<u>\$ 173,840</u>

The District of Columbia Public Charter School Board leases its office space under an operating lease which expires on July 31, 2005. Future minimum rental payments are noted above. Rent expense for the year ended September 30, 2002 was \$64,127.

Note 7 - Economic Dependency:

The District of Columbia Public Charter School Board derived fifty-one percent (51%) of its current year revenues from appropriations as enacted by the District of Columbia Appropriation Bill. Administrative fees received from one charter school represents twelve percent (12%) of current year revenues.

Note 8 - 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 administered by American Express Financial Advisors. 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 \$6,000 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.

The Board's total covered payroll for the year ended September 30, 2002 was \$216,942. The Board's contributions on all covered employees amounted to \$5,716 and employee contributions were \$7,062.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 9 - New Reporting Standard:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Board is required to implement this standard for the fiscal year ending September 30, 2004. The Board has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

Kendall, Prebola and Jones
Certified Public Accountants

District of Columbia Public
Charter School Board
1436 U Street, NW, Suite 401
Washington, DC 20009

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

We have audited the financial statements 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, 2002, and have issued our report thereon dated December 17, 2002. 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

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 grants, 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 described in the accompanying schedule of findings and questioned costs as item 02-1.

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 over financial reporting that might be material weaknesses. A material weakness is a 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 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 that we have considered to be material weaknesses.

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 17, 2002

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

02-1 Statement of Condition - As of September 30, 2002 there was \$220,515 of cash held in bank accounts that were 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 should be insured or 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 - The Board was not aware that a portion of their funds maintained at the financial institution was not collateralized.

Recommendation - We recommend that the Board contact the financial institution where collateralization is lacking in order to request the proper pledging of securities.

Views of Responsible Officials - The Board was aware of this requirement, but was not aware that the financial institution was not meeting the requirements. The necessary steps will be taken to obtain collateralization.