

DISTRICT OF COLUMBIA  
PUBLIC CHARTER SCHOOL BOARD

WASHINGTON, DC

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AUDIT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2003

**KENDALL, PREBOLA AND JONES**

Certified Public Accountants

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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, 2003, 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, 2003, 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 18, 2003, 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 18, 2003

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
SEPTEMBER 30, 2003

|   | <u>Governmental</u><br><u>Fund Type</u> | <u>Account</u><br><u>Group</u>       | <u>Totals</u><br><u>(Memorandum</u><br><u>Only)</u> |
|---|---|--------------------------------------|---|
|   | <u>Special</u><br><u>Revenue</u>        | <u>General</u><br><u>Fixed Asset</u> |   |
| <u>ASSETS</u>   |   |                                      |   |
| <u>Current Assets:</u>  |   |                                      |   |
| Cash (Note 2)   | \$ 675,858                              | \$ -                                 | \$ 675,858  |
| Accounts Receivable   | <u>1,000</u>                            | <u>-</u>                             | <u>1,000</u>  |
| Total Current Assets  | <u>\$ 676,858</u>                       | <u>\$ -</u>                          | <u>\$ 676,858</u>                                   |
| <u>Other Assets:</u>  |   |                                      |   |
| Fixed Assets (Note 4)   | \$ -                                    | \$ 186,523                           | \$ 186,523  |
| Deposits  | <u>4,812</u>                            | <u>-</u>                             | <u>4,812</u>  |
| Total Other Assets  | <u>\$ 4,812</u>                         | <u>\$ 186,523</u>                    | <u>\$ 191,335</u>                                   |
| <b>TOTAL ASSETS</b>   | <u><b>\$ 681,670</b></u>                | <u><b>\$ 186,523</b></u>             | <u><b>\$ 868,193</b></u>                            |
| <u>LIABILITIES AND FUND BALANCE</u>                           |   |                                      |   |
| <u>Liabilities:</u>   |   |                                      |   |
| Accounts Payable  | \$ 26,910                               | \$ -                                 | \$ 26,910   |
| Accrued Expenses  | 9,487                                   | -                                    | 9,487   |
| Deferred Administrative Fees (Note 5)                         | 84,658                                  | -                                    | 84,658  |
| Advance on Grants   | <u>63,662</u>                           | <u>-</u>                             | <u>63,662</u>                                       |
| Total Liabilities   | <u>\$ 184,717</u>                       | <u>\$ -</u>                          | <u>\$ 184,717</u>                                   |
| <u>Fund Balances and Other Credits:</u>                       |   |                                      |   |
| Investment in General Fixed Assets                            | \$ -                                    | \$ 186,523                           | \$ 186,523  |
| Unreserved Fund Balance                                       | 492,141                                 | -                                    | 492,141   |
| Reserved Fund Balance (Note 3)                                | <u>4,812</u>                            | <u>-</u>                             | <u>4,812</u>  |
| Total Fund Balances and Other Credits                         | <u>\$ 496,953</u>                       | <u>\$ 186,523</u>                    | <u>\$ 683,476</u>                                   |
| <b>TOTAL LIABILITIES, FUND BALANCES<br/>AND OTHER CREDITS</b> | <u><b>\$ 681,670</b></u>                | <u><b>\$ 186,523</b></u>             | <u><b>\$ 868,193</b></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, 2003

Revenues:

|                              |                         |
|------------------------------|-------------------------|
| Government Appropriations    | \$ 589,000              |
| Administrative Fees (Note 5) | 382,819                 |
| Grants                       | 31,140                  |
| Interest Income              | 6,223                   |
| Other                        | <u>1,000</u>            |
| <br>Total Revenues           | <br><u>\$ 1,010,182</u> |

Expenditures:

## Current:

|  |                       |
|--|-----------------------|
| Charter School Program:                  |                       |
| Wages                                    | \$ 402,516            |
| Fringe Benefits                          | 61,947                |
| Professional Development                 | 3,066                 |
| Consultants                              | 264,348               |
| Legal and Audit                          | 5,338                 |
| Travel, Meetings and Conferences         | 13,547                |
| Office Rent and Utilities                | 64,123                |
| Bookkeeping and Payroll Fees             | 14,334                |
| Postage and Shipping                     | 4,420                 |
| Printing and Duplicating                 | 10,121                |
| Telephone                                | 13,646                |
| Electronic Communications                | 4,306                 |
| Subscriptions, Books and Dues            | 2,819                 |
| Maintenance and Equipment Rental         | 8,742                 |
| Office Supplies and Expense              | 17,904                |
| Insurance                                | 3,153                 |
| Capital Outlay                           | <u>9,444</u>          |
| <br>Total Expenditures                   | <br><u>\$ 903,774</u> |
| <br>Excess of Revenues Over Expenditures | <br>\$ 106,408        |
| Fund Balance, October 1, 2002            | <u>390,545</u>        |
| <br>Fund Balance, September 30, 2003     | <br><u>\$ 496,953</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 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.

D. Grants -

Grants resulted from voluntary non-exchange transactions with 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.

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 30, 2003 consisted of interest bearing and non-interest bearing accounts with the following carrying balances:

|                                 |                   |
|---------------------------------|-------------------|
| Non-Interest Bearing - Checking | \$ 34,484         |
| Interest Bearing - Savings      | 94,354            |
| Interest Bearing - Money Market | <u>547,020</u>    |
| Total                           | <u>\$ 675,858</u> |



DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash: (Continued)

In accordance with GASB Statement No. 3, three categories of credit risk are defined. Category 1 - includes deposits insured or collateralized with securities held by the District of Columbia 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)   | \$ 146,845        |
| Category 2 - Collateralized with Securities Held by the<br>Pledging Financial Institution in the<br>Entity's Name | -                 |
| Uninsured and Uncollateralized  | <u>541,374</u>    |
| Total   | <u>\$ 688,219</u> |

Due to increased cash flows at certain times during the year, the District of Columbia 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, 2003, 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 - Nature and Purpose of Reservations of Fund Balance:

As a requirement of the office space rental lease agreement, an amount of \$4,812 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.

Note 4 - Changes in General Fixed Assets:

The changes in the general fixed asset account group during the year ended September 30, 2003 was as follows:

|                             |                   |
|-----------------------------|-------------------|
| Balance, October 1, 2002    | \$ 186,998        |
| Current Year Purchases      | 9,444             |
| Current Year Dispositions   | <u>(9,919)</u>    |
| Balance, September 30, 2003 | <u>\$ 186,523</u> |

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, which is based on the Charter School year of July 1, through June 30. During the year ended September 30, 2003, \$382,819 of administrative fees were earned. In addition, \$84,658 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 as follows:

| <u>Year Ending September 30</u>     |                   |
|-------------------------------------|-------------------|
| 2004                                | \$ 61,480         |
| 2005                                | 52,085            |
| 2006                                | -                 |
| 2007                                | -                 |
| 2008                                | -                 |
| Total Future Minimum Lease Payments | <u>\$ 113,565</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, 2003 related to this lease was \$60,435.

Note 7 - Economic Dependency:

The District of Columbia Public Charter School Board derived fifty-eight percent (58%) of its current year revenues from appropriations as enacted by the District of Columbia Appropriation Bill. Administrative fees received from one charter school represents thirteen percent (13%) 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 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 \$8,000 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.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS

Note 8 - Pension Plan: (Continued)

The Board's total covered payroll for the year ended September 30, 2003 was \$407,167. The Board's contributions on all covered employees amounted to \$8,712 and employee contributions were \$10,454.

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-election quarterly contributions to the plan in the amount of \$915. Total employer contributions made during the year ended September 30, 2003 was \$2,745.

Note 10 - 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.

**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, 2003, and have issued our report thereon dated December 18, 2003. 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 disclosed in the accompanying schedule of findings and questioned costs as item 03-1.

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 and its operation 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.

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*Kendall, Prebola and Jones*

Kendall, Prebola and Jones  
Certified Public Accountants

Bedford, Pennsylvania  
December 18, 2003

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2003

03-1 Statement of Condition - As of September 30, 2003 there was \$541,374 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 have been taken and collateralization has been obtained as of December 16, 2003.