

DISTRICT OF COLUMBIA
PUBLIC CHARTER SCHOOL BOARD

WASHINGTON, DC

AUDIT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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 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, 2004, 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, 2004, 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 described in Note 1, the District of Columbia Public Charter School Board has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of September 30, 2004.

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 to be a part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2004, 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 read in conjunction with this report in considering the results of our audit.

Kendall, Prebola and Jones

Certified Public Accountants

Bedford, Pennsylvania
November 16, 2004

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	<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)	\$ 819,529	\$ -	\$ 819,529
Accounts Receivable	5,157	-	5,157
Interest Receivable	1,277	-	1,277
Prepaid Expenses	<u>11,627</u>	<u>-</u>	<u>11,627</u>
Total Current Assets	<u>\$ 837,590</u>	<u>\$ -</u>	<u>\$ 837,590</u>
<u>Noncurrent Assets:</u>			
Deposits	\$ 4,812	\$ -	\$ 4,812
Net Capital Assets (Note 4)	<u>106,703</u>	<u>-</u>	<u>106,703</u>
Total Noncurrent Assets	<u>\$ 111,515</u>	<u>\$ -</u>	<u>\$ 111,515</u>
TOTAL ASSETS	<u>\$ 949,105</u>	<u>\$ -</u>	<u>\$ 949,105</u>
<u>LIABILITIES:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$ 9,443	\$ -	\$ 9,443
Accrued Expenses	11,381	-	11,381
Deferred Administrative Fees (Note 5)	137,388	-	137,388
Advance on Grants	<u>59,296</u>	<u>-</u>	<u>59,296</u>
Total Liabilities	<u>\$ 217,508</u>	<u>\$ -</u>	<u>\$ 217,508</u>
<u>NET ASSETS:</u>			
<u>Net Assets:</u>			
Investment in Capital Assets, Net of Related Debt	\$ 106,703	\$ -	\$ 106,703
Unrestricted	<u>624,894</u>	<u>-</u>	<u>624,894</u>
Total Net Assets	<u>\$ 731,597</u>	<u>\$ -</u>	<u>\$ 731,597</u>

(See Accompanying Notes and Auditor's Report)

**DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs:						
Governmental Activities:						
Charter School Program	\$ 1,057,313	\$ -	\$ -	\$ (529,910)	\$ -	\$ (529,910)
School-to-Career	6,462	6,462	-	-	-	-
School Accountability Plans	37,499	37,499	-	-	-	-
No Child Left Behind Act	147,405	147,405	-	-	-	-
Depreciation - Unallocated	23,790	-	-	(23,790)	-	(23,790)
Total Governmental Activities	<u>\$ 1,272,469</u>	<u>\$ 191,366</u>	<u>\$ -</u>	<u>\$ (553,700)</u>	<u>\$ -</u>	<u>\$ (553,700)</u>
Business-Type Activities:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Government, Component Unit	<u>\$ 1,272,469</u>	<u>\$ 191,366</u>	<u>\$ -</u>	<u>\$ (553,700)</u>	<u>\$ -</u>	<u>\$ (553,700)</u>
General Revenues:						
Government Aid - Appropriations				\$ 660,000	\$ -	\$ 660,000
Interest Earnings				8,806	-	8,806
Miscellaneous				343	-	343
Total General Revenues				<u>\$ 669,149</u>	<u>\$ -</u>	<u>\$ 669,149</u>
Change in Net Assets				\$ 115,449	\$ -	\$ 115,449
Net Assets - Beginning of Year				616,148	-	616,148
Net Assets - End of Year				<u>\$ 731,597</u>	<u>\$ -</u>	<u>\$ 731,597</u>

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004

	<u>Governmental Fund Type</u>	
	<u>Special Revenue</u>	<u>Total</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents (Note 2)	\$ 819,529	\$ 819,529
Accounts Receivable	5,157	5,157
Interest Receivable	<u>1,277</u>	<u>1,277</u>
Total Current Assets	<u>\$ 825,963</u>	<u>\$ 825,963</u>
<u>Other Assets:</u>		
Deposits	<u>\$ 4,812</u>	<u>\$ 4,812</u>
Total Other Assets	<u>\$ 4,812</u>	<u>\$ 4,812</u>
TOTAL ASSETS	<u>\$ 830,775</u>	<u>\$ 830,775</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>Liabilities:</u>		
Accounts Payable	\$ 9,443	\$ 9,443
Accrued Expenses	11,381	11,381
Deferred Administrative Fees (Note 5)	137,388	137,388
Advance on Grants	<u>59,296</u>	<u>59,296</u>
Total Liabilities	<u>\$ 217,508</u>	<u>\$ 217,508</u>
<u>Fund Balances and Other Credits:</u>		
Unreserved Fund Balance	\$ 608,455	\$ 608,455
Reserved Fund Balance (Note 3)	<u>4,812</u>	<u>4,812</u>
Total Fund Balances and Other Credits	<u>\$ 613,267</u>	<u>\$ 613,267</u>
TOTAL LIABILITIES, FUND BALANCES AND OTHER CREDITS	<u>\$ 830,775</u>	<u>\$ 830,775</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, 2004

<u>TOTAL FUND BALANCE - GOVERNMENTAL FUNDS</u>	\$ 613,267
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 \$207,822, and the accumulated depreciation is \$101,119	106,703
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>11,627</u>
<u>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</u>	<u>\$ 731,597</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, 2004

<u>Revenues:</u>	<u>Special Revenue</u>
Government Appropriations	\$ 660,000
Administrative Fees (Note 5)	527,403
Grants	191,366
Interest Income	8,806
Other	<u>343</u>
 Total Revenues	 <u>\$ 1,387,918</u>
 <u>Expenditures:</u>	
<u>Current:</u>	
Wages	\$ 521,368
Fringe Benefits (Note 10)	73,316
Temporary Help	30,881
Professional Development	2,000
Consultants (Note 11)	387,344
Legal and Audit	5,699
Travel, Meetings and Conferences	19,235
Office Rent and Utilities	66,083
Bookkeeping and Payroll Fees	8,819
Postage and Shipping	6,905
Printing and Duplicating	26,343
Publicity and Promotion	53,805
Telephone	13,506
Electronic Communications	4,392
Subscriptions, Books and Dues	3,132
Maintenance and Equipment Rental	11,276
Office Supplies and Expense	13,361
Insurance	2,835
Capital Outlay	<u>21,304</u>
 Total Expenditures	 <u>\$ 1,271,604</u>
 Excess of Revenues Over Expenditures	 \$ 116,314
Fund Balance, October 1, 2003	<u>496,953</u>
 Fund Balance, September 30, 2004	 <u>\$ 613,267</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 Statements 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 noted to financial statements). The District of Columbia Public Charter School Board has implemented the general provisions of the Statement in the current year.

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.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

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

A. Reporting Entity - (Continued)

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.

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, 2004 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

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, 2004 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 amounts of deposits are separately displayed on the Balance Sheet as "Cash and Cash Equivalents". At September 30, 2004, the carrying amount of the Board's deposits were \$819,529 and the bank balance was \$952,398. A summary of bank balances is as follows:

Non-Interest Bearing - Checking	\$	290,810
Interest Bearing - Checking		20,004
Interest Bearing - Money Market		126,473
Certificates of Deposit		<u>515,111</u>
Total	\$	<u>952,398</u>

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 or Collateralized	\$	905,921
Category 2 - Collateralized with Securities Held by the Pledging Financial Institution in the Entity's Name		-
Uninsured and Uncollateralized		<u>46,477</u>
Total	\$	<u>952,398</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 1 at those times may have been substantially higher than at year end. In addition, those funds which were unsecured and uncollateralized may have been higher at year end.

For the year ended September 30, 2004, 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.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

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 - Capital Assets:

Capital asset activity for the year ended September 30, 2004 was as follows:

<u>Governmental Activities</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
<u>Capital Assets:</u>				
Leasehold Improvements	\$ 51,640	\$ -	\$ -	\$ 51,640
Computers and Software	85,848	19,946	-	105,794
Furniture and Fixtures	18,209	893	-	19,102
Machinery and Equipment	<u>30,821</u>	<u>465</u>	<u>-</u>	<u>31,286</u>
 Total Capital Assets	 <u>\$ 186,518</u>	 <u>\$ 21,304</u>	 <u>\$ -</u>	 <u>\$ 207,822</u>
 <u>Less Accumulated Depreciation for:</u>				
Leasehold Improvements	\$ (4,088)	\$ (1,291)	\$ -	\$ (5,379)
Computers and Software	(50,348)	(16,125)	-	(66,473)
Furniture and Fixtures	(8,994)	(1,909)	-	(10,903)
Machinery and Equipment	<u>(13,899)</u>	<u>(4,465)</u>	<u>-</u>	<u>(18,364)</u>
 Total Accumulated Depreciation	 <u>\$ (77,329)</u>	 <u>\$ (23,790)</u>	 <u>\$ -</u>	 <u>\$ (101,119)</u>
 Other Capital Assets, Net	 <u>\$ 109,189</u>	 <u>\$ (2,486)</u>	 <u>\$ -</u>	 <u>\$ 106,703</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, 2004, \$527,403 of administrative fees were earned. In addition, \$137,388 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 6 - Commitments:

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

Year Ending September 30

2005	\$ 52,085
2006	-
2007	-
2008	-
2009	-
Total Future Minimum Lease Payments	<u>\$ 52,085</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, 2004 related to this lease was \$61,480.

Note 7 - Economic Dependency:

The District of Columbia Public Charter School Board derived forty-seven percent (47%) of its current year revenues from appropriations as enacted by the District of Columbia Appropriation Bill. Administrative fees received from one charter school represents eleven percent (11%) 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 \$9,000 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 contributions on all covered employees amounted to \$12,713 and employee contributions were \$24,259.

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, 2004 was \$3,660.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 10 - Fringe Benefits:

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

Social Security	\$ 38,907
Unemployment	1,356
Health Insurance	14,925
Retirement	16,373
Life Insurance	462
De Minimus	<u>1,293</u>
 Total Fringe Benefits	 <u>\$ 73,316</u>

Note 11 - Consulting:

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

Application Reviews	\$ 15,312
Compliance Audits	2,513
Contract Reviews	2,600
Program Development Reviews	72,172
SAT-9 Monitoring	8,351
School Closing	7,605
Special Education Training	1,400
Special Education Reviews	6,200
Financial Reviews	5,924
Staff Consulting	7,911
Technology	114,512
School Accountability Plans	37,499
No Child Left Behind	52,275
Other	<u>53,070</u>
 Total Consulting	 <u>\$ 387,344</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE 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, 2004, and have issued our report thereon dated November 16, 2004. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These items are disclosed in the accompanying schedule of findings and questioned costs as items 04-1 and 04-2.

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 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.

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 16, 2004

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

04-1 Statement of Condition - As of September 30, 2004 there was \$46,477 of cash held in interest bearing bank accounts at one depository that 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 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 - During the current year, the Board transferred the majority of the cash reserves into individually FDIC insured Certificates of Deposits. It was the belief of management that the remaining funds deposited into an interest bearing money market account 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.

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 repurchases agreements with the banks involved.

04-2 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.

Questioned Costs \$ -0-

Criteria - According to the laws of the District of Columbia, organizations who have employees are required to maintain workers compensation insurance.

Effect of Condition - The Board is at risk of loss for any workers compensation claims that might occur after insurance coverage lapsed.

Cause of Condition - According to the insurance carrier, attempt was made to notify the Board that insurance was about to lapse and that coverage renewal was necessary. It was determined that notification was made by both email and telephone, however, to addresses and numbers that were no longer in service. As such, management was unaware that the insurance policy had lapsed.

Recommendation - We recommend that the worker's compensation insurance policy be renewed.

Views of Responsible Officials - The lapse in policy was as stated above - due to a clerical error that has been corrected.