

DISTRICT OF COLUMBIA
PUBLIC CHARTER SCHOOL BOARD

WASHINGTON, DC

AUDIT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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Kendall, Prebola and Jones, LLC
Certified Public Accountants

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

Independent Auditor's Report

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District of Columbia Public Charter School Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(A) to the financial statements, the District of Columbia Public Charter School Board is a legally separate component unit of the District of Columbia. These financial statements are intended to present the financial position and changes in financial position of only the governmental activities of the District of Columbia (the primary government) that are attributable to the transactions of the District of Columbia Public Charter School Board. They do not purport to, and do not, present fairly the financial position of the District of Columbia as of September 30, 2013, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

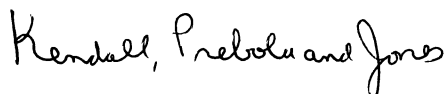
As more fully described in Note 1(F) to the financial statements, the District of Columbia Public Charter School Board is not required to legally adopt an annual operating budget and as such a budgetary comparison has not been presented as Required Supplementary Information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District of Columbia Public Charter School Board's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2014, 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
Certified Public Accountants

Bedford, Pennsylvania
April 5, 2014

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Current Assets:</u>			
Cash and Cash Equivalents	\$ 437,331	\$ -	\$ 437,331
Grants Receivable	187,500	-	187,500
Accounts Receivable	81,659	-	81,659
Prepaid Expenses	<u>48,077</u>	<u>-</u>	<u>48,077</u>
Total Current Assets	<u>\$ 754,567</u>	<u>\$ -</u>	<u>\$ 754,567</u>
<u>Other Assets:</u>			
Deposits	<u>\$ 23,376</u>	<u>\$ -</u>	<u>\$ 23,376</u>
Total Other Assets	<u>\$ 23,376</u>	<u>\$ -</u>	<u>\$ 23,376</u>
<u>Noncurrent Assets:</u>			
Net Capital Assets	<u>\$ 118,899</u>	<u>\$ -</u>	<u>\$ 118,899</u>
Total Noncurrent Assets	<u>\$ 118,899</u>	<u>\$ -</u>	<u>\$ 118,899</u>
TOTAL ASSETS	<u>\$ 896,842</u>	<u>\$ -</u>	<u>\$ 896,842</u>
 <u>LIABILITIES</u>			
Accounts Payable	\$ 349,595	\$ -	\$ 349,595
Accrued Payroll and Vacation	173,912	-	173,912
Payroll Related Liabilities	46,272	-	46,272
Unearned Revenues	<u>20,300</u>	<u>-</u>	<u>20,300</u>
TOTAL LIABILITIES	<u>\$ 590,079</u>	<u>\$ -</u>	<u>\$ 590,079</u>
 <u>NET POSITION</u>			
Net Investment in Capital Assets	\$ 118,899	\$ -	\$ 118,899
Unrestricted	<u>187,864</u>	<u>-</u>	<u>187,864</u>
TOTAL NET POSITION	<u>\$ 306,763</u>	<u>\$ -</u>	<u>\$ 306,763</u>

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs:							
Governmental Activities:							
Charter School Program	\$ 3,921,226	\$ 3,137,424	\$ 102,953	\$ -	\$ (680,849)	\$ -	\$ (680,849)
Parent Charter School Information	300,000	-	300,000	-	-	-	-
Performance Based Incentive Funding	200,000	-	200,000	-	-	-	-
School Closures	195,617	-	195,617	-	-	-	-
Authorizers Instruments	212,738	-	183,354	-	(29,384)	-	(29,384)
Qualitative Site Reviews	183,847	-	167,836	-	(16,011)	-	(16,011)
ESEA Waiver Activities	100,000	-	100,000	-	-	-	-
City-Wide Enrollment	58,200	-	58,200	-	-	-	-
My School DC Implementation	52,760	-	52,760	-	-	-	-
PMF Activities	134,027	-	40,610	-	(93,417)	-	(93,417)
Data Quality Initiative	40,000	-	40,000	-	-	-	-
Transcript Reviews	17,443	-	8,200	-	(9,243)	-	(9,243)
Depreciation - Unallocated	48,857	-	-	-	(48,857)	-	(48,857)
Loss on Disposal of Assets	<u>765</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(765)</u>	<u>-</u>	<u>(765)</u>
Total Governmental Activities	<u>\$ 5,465,480</u>	<u>\$ 3,137,424</u>	<u>\$ 1,449,530</u>	<u>\$ -</u>	<u>\$ (878,526)</u>	<u>\$ -</u>	<u>\$ (878,526)</u>
Business-Type Activities:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Government, Component Unit	<u>\$ 5,465,480</u>	<u>\$ 3,137,424</u>	<u>\$ 1,449,530</u>	<u>\$ -</u>	<u>\$ (878,526)</u>	<u>\$ -</u>	<u>\$ (878,526)</u>
General Revenues:							
Government Aid - Appropriations					\$ 947,806	\$ -	\$ 947,806
Interest Earnings					<u>71</u>	<u>-</u>	<u>71</u>
Total General Revenues					<u>\$ 947,877</u>	<u>\$ -</u>	<u>\$ 947,877</u>
Change in Net Position					\$ 69,351	\$ -	\$ 69,351
Net Position - Beginning of Year					<u>237,412</u>	<u>-</u>	<u>237,412</u>
Net Position - End of Year					<u>\$ 306,763</u>	<u>\$ -</u>	<u>\$ 306,763</u>

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	<u>Governmental Fund Type Special Revenue</u>	<u>Total</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 437,331	\$ 437,331
Grants Receivable	187,500	187,500
Accounts Receivable	<u>81,659</u>	<u>81,659</u>
Total Current Assets	<u>\$ 706,490</u>	<u>\$ 706,490</u>
<u>Other Assets:</u>		
Deposits	<u>\$ 23,376</u>	<u>\$ 23,376</u>
Total Other Assets	<u>\$ 23,376</u>	<u>\$ 23,376</u>
TOTAL ASSETS	<u>\$ 729,866</u>	<u>\$ 729,866</u>
<u>LIABILITIES AND FUND BALANCES</u>		
<u>Liabilities:</u>		
Accounts Payable	\$ 349,595	\$ 349,595
Accrued Payroll and Vacation	173,912	173,912
Payroll Related Liabilities	46,272	46,272
Unearned Revenues	<u>20,300</u>	<u>20,300</u>
Total Liabilities	<u>\$ 590,079</u>	<u>\$ 590,079</u>
<u>Fund Balances:</u>		
Nonspendable	\$ 23,376	\$ 23,376
Committed	<u>116,411</u>	<u>116,411</u>
Total Fund Balances	<u>\$ 139,787</u>	<u>\$ 139,787</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 729,866</u>	<u>\$ 729,866</u>

(See Accompanying Notes and Auditor's Report)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ 306,763
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DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

<u>Revenues:</u>	<u>Special Revenue</u>
Government Appropriations	\$ 947,806
Administrative Fees	3,130,224
Grants and Contributions	1,449,530
Service Fees	7,200
Interest Income	<u>71</u>
Total Revenues	<u>\$ 5,534,831</u>
 <u>Expenditures:</u>	
Current:	
Wages	\$ 2,470,751
Fringe Benefits	453,115
Temporary Help	113,567
Consultants	1,198,465
Professional Development	4,690
School Closure Expense	104,254
Legal and Audit	58,198
Travel, Meetings and Conferences	103,224
Community Events	139,818
Office Rent and Utilities	460,303
Bookkeeping and Payroll Fees	44,378
Postage and Shipping	5,475
Printing, Duplicating and Production	79,297
Publicity and Promotion	19,572
Telephone and Electronic Communications	88,057
Subscriptions, Books and Dues	4,461
Maintenance and Equipment Rental	51,001
Office Supplies and Expense	35,036
Insurance	6,302
Capital Outlay	<u>62,621</u>
Total Expenditures	<u>\$ 5,502,585</u>
Excess of Revenues Over (Under) Expenditures	\$ 32,246
Fund Balances, Beginning of Year	<u>107,541</u>
Fund Balances, End of Year	<u>\$ 139,787</u>

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 32,246

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

Capital outlays are reported in governmental funds as expenditures. In the statement of activities the cost of assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation in the current period. 13,000

Deferred charges are reported in the governmental funds as expenditures. However, in the government-wide financial statements such charges are recorded as prepaid expense. Prepaid expenses decreased by this amount during the year. 24,105

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 69,351

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

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). The more significant accounting policies established in GAAP and used by the School Board are discussed below.

A. Financial Reporting Entity -

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.

Board Members are nominated by the Mayor of the District of Columbia and confirmed by the D.C. Council. 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.

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:

- 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.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

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

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 Position, 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 position is reported in three parts - invested in capital assets, net of related debt; restricted and unrestricted. When applicable, the Board first utilizes restricted resources to finance qualifying activities. During the year ended September 30, 2013, 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 position resulting from the current year's activities.

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.

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 - (Continued)

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 -

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus refers to the type of resources being measured such as current financial resources or economic resources; the 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.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as an other financing source.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 180 days of year end). All other revenue items are considered to be measurable and available only when the government receives cash. 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. Capital Assets -

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

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

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

F. 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.

G. Governmental Fund Balances -

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement defines the types of fund balances that a governmental entity must use for financial reporting purposes. The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance -

The nonspendable fund balance classification reflects amounts that are not in spendable form such as prepaid expenses and deposits. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

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

G. Governmental Fund Balances - (Continued)

Restricted Fund Balance -

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance -

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the District of Columbia's highest level of decision-making authority.

In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the highest level of decision-making authority.

Assigned Fund Balance -

The assigned fund balance classification reflects amounts that the Public Charter School Board *intends* to be used for specific purposes. Assignments may be established either by the governing body or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint.

In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the highest level of decision-making authority. The action does not require the same level of formality and may be delegated to another body or official.

Unassigned Fund Balance -

For this special revenue fund, a positive unassigned fund balance is never reported because amounts in this fund have been committed, at least, to the purpose of that fund. However, deficits in the special revenue fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Classification Policies and Procedures:

Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the District of Columbia through a resolution. A resolution also must be passed by the District to modify or rescind committed fund balances.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments:

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

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

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

Cash at September 30, 2013, consisted of interest bearing and non-interest bearing accounts. This was the nature of accounts that were maintained throughout the year. All of these deposits are carried at cost. The carrying amount of deposits is separately displayed on the Balance Sheet as "Cash and Cash Equivalents." At September 30, 2013, the carrying amount of the Board's deposits was \$437,131 and the bank balance was \$437,131. A summary of bank balances are as follows:

	<u>Bank Balances</u>	<u>Carrying Balances</u>
Non-Interest Bearing - Checking	\$ 431,752	\$ 431,752
Interest Bearing - Checking	<u>5,379</u>	<u>5,379</u>
Total	<u>\$ 437,131</u>	<u>\$ 437,131</u>

The Public Charter School Board maintains its deposits in two separate financial institutions in the form of an interest-bearing and a non-interest bearing checking account. These accounts are covered under the Federal Deposit Insurance Corporation (FDIC) program.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments: (Continued)

Federal Deposit Insurance Corporation Insurance coverage is \$250,000 per account category. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, non-interest bearing accounts were insured in full through December 31, 2012, at which time the unlimited insurance coverage for non-interest-bearing transaction accounts expired. Deposits held in non-interest-bearing transaction accounts are now aggregated with any interest-bearing deposits and the combined total insured up to \$250,000.

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.

In accordance with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. Law 12-56), which became effective on March 18, 1998, all of the deposits at September 30, 2013, were insured or collateralized with securities held by its agent in the District of Columbia's name.

Note 3 - Accounts and Grants Receivable:

Accounts Receivable -

Accounts receivable at September 30, 2013 are considered to be fully collectible and consisted of the following:

School Administrative Fees	\$ 45,905
PayPal - Escrow Account	30,245
Other Reimbursements	<u>5,509</u>
Total Deposits	<u>\$ 81,659</u>

Grants Receivable -

The Public Charter School Board's primary responsibility is for monitoring charter schools in the areas of academic performance, governance, financial operation, and NCLB compliance. If charter schools are not meeting academic and non-academic performance over a period of time, the Public Charter School Board may take action to close the school through revocation, or the school may relinquish their charter. When a charter school closes, the following actions must take place in a timely and effective manner:

- a. Ensure all aspects of a school closure are completed accurately and timely in accordance with guidelines established by the Office of State Superintendent of Education;
- b. All students, including special education, are transferred to schools that can accommodate and meet all of their needs, and student records are transferred to the receiving school;
- c. All federally funded grants and entitlements are closed out properly, including equipment and inventory liquidation.

While the Public Charter School Board is the authorizer for public charter schools in the District of Columbia, the Office of Public Charter School Financing and Support within the District of Columbia Office of State Superintendent of Education (OSSE) shares responsibility with other OSSE offices to ensure effective oversight and compliance for federal funds awarded by OSSE to D.C. public charter schools.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 3 - Accounts and Grants Receivable: (Continued)

Grants Receivable - (Continued)

To meet the shared goals of the Public Charter School Board and OSSE, a Memorandum of Understanding was entered into by these parties to support the oversight of the financial closure process for charter schools. Following is the amount to be received by the Public Charter School Board at September 30, 2013, from the District of Columbia Government:

ESEA Waiver Funds	\$ 100,000
School Closure Funding	<u>18,740</u>
Total DC Government Grants	<u>\$ 118,740</u>

Other grants receivable at September 30, 2013, consisted of the following:

My School DC Implementation	\$ 52,760
General Unrestricted	<u>16,000</u>
Total Other Grants	<u>\$ 68,760</u>

Note 4 - Capital Assets:

Capital asset activity for the year ended September 30, 2013 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	\$ 98,726	\$ 5,552	\$ -	\$ 104,278
Computers and Software	170,978	23,378	(10,412)	183,944
Furniture and Fixtures	82,090	24,557	(10,177)	96,470
Machinery and Equipment	<u>6,953</u>	<u>9,134</u>	<u>(571)</u>	<u>15,516</u>
Total Capital Assets	<u>\$ 358,747</u>	<u>\$ 62,621</u>	<u>\$ (21,160)</u>	<u>\$ 400,208</u>
Less Accumulated Depreciation for:				
Leasehold Improvements	\$ (75,589)	\$ (3,814)	\$ -	\$ (79,403)
Computers and Software	(108,942)	(33,721)	9,828	(132,835)
Furniture and Fixtures	(66,948)	(9,443)	10,064	(66,327)
Machinery and Equipment	<u>(1,369)</u>	<u>(1,879)</u>	<u>504</u>	<u>(2,744)</u>
Total Accumulated Depreciation	<u>\$ (252,848)</u>	<u>\$ (48,857)</u>	<u>\$ 20,396</u>	<u>\$ (281,309)</u>
Total Capital Assets, Net	<u>\$ 105,899</u>	<u>\$ 13,764</u>	<u>\$ (764)</u>	<u>\$ 118,899</u>

Note 5 - Administrative Fees:

As authorized by Section 2211(b)(2) of the District of Columbia School Reform Act, the District of Columbia Public Charter School assesses an administrative fee on the schools it serves at an amount not to exceed one half of one percent of the annual budget of the school. This fee is for the purpose of covering the cost of undertaking the ongoing administrative responsibilities of the Public School Board.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 5 - Administrative Fees: (Continued)

Through the year ended September 30, 2012, it was the policy of the District of Columbia Public Charter School Board to assess this fee based on the total per-pupil funding payments (including Summer School and Special Education) made to the charter school from the Office of State Superintendent of Education (OSSE). An original assessment was provided to the charter school at the beginning of the school year based on its anticipated student enrollment. Subsequent to the close of the school year, a retro-active adjustment was made either increasing or decreasing the assessment based on final OSSE audit enrollment counts including summer school and special education.

Effective October 1, 2012, the District of Columbia Public Charter School Board amended its policy for the determination of the amount of the administrative fee assessment. For the year ended September 30, 2013 the initial assessment was based on the schools total budgeted revenues less those revenues derived through private philanthropy. A retroactive adjustment will be provided to the respective charter schools once their Federal Form 990 Information Tax Return for an Exempt Organization has been submitted to the District of Columbia Public Charter School Board for review.

Note 6 - Commitments:

Occupancy -

The Board is committed under non-cancelable operating leases to make future minimum payments for office space usage over the next five years as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Tivoli</u> <u>2nd Floor</u>	<u>Sojourners</u> <u>3rd Floor</u>
2014	\$ 206,060	\$ 139,979
2015	<u>157,416</u>	<u>108,591</u>
Total Future Minimum Lease Payments	<u>\$ 363,476</u>	<u>\$ 248,570</u>

Tivoli 2nd Floor:

The District of Columbia Public Charter School Board leases its office space on the second floor under an operating lease, which was effective July 15, 2005 and expires on June 30, 2015. The Board is obligated to pay a proportion of the annual "Excess Operating Costs" and "Excess Real Estate Taxes" on the leased property. An estimate of the annual increase in operating costs and real estate taxes has not been provided for in the above. Monthly base lease payments required at September 30, 2013 were \$17,065. As a requirement of this lease, a security deposit in the amount of \$9,369 was required to be made. Future minimum rental payments are noted above. Rental expense under this lease for the year ended September 30, 2013 was as follows:

Base Rent	\$ 201,048
Real Estate Taxes	20,665
Operating Costs	<u>11,978</u>
Total Rent Expense	<u>\$ 233,691</u>

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 6 - Commitments: (Continued)

Occupancy - (Continued)

Sojourners 3rd Floor:

The District of Columbia Public Charter School Board entered into a sublease agreement on January 25, 2007 for the lease of office space on the third floor of its current location. This sublease was originally effective for a four year period commencing on March 1, 2007 and ending on February 28, 2011. The lease was renewed on June 21, 2010 for an additional four years and four months through June 30, 2015. This lease calls for monthly rental payments in the amount of \$9,369 with four percent (4%) fixed annual increases over the previous year's rent. Future minimum rental payments are as noted above. Monthly lease payments required at September 30, 2013 were \$11,399. Rental expense under this lease for the year ended September 30, 2013 was \$134,596.

The Board had an irrevocable unsecured standby letter of credit in the amount of \$14,007 obtained in lieu of a security deposit under this operating lease. This letter of credit expired on June 1, 2013. When the letter of credit expired, the Board issued a security deposit to the landlord in the amount of \$14,007.

Copier Leases -

The District of Columbia Public Charter School Board entered into an operating lease on April 7, 2009, with CIT Technology Financing Services for the rental of a Xerox 7665 Photocopier. This lease was effective for a five year period commencing on May 27, 2009. This lease called for monthly rental payments of \$809. This lease was terminated effective October 31, 2012. Rental expense under this lease for the year ended September 30, 2013 was \$809.

The DC Public Charter School Board entered into an operating lease on October 31, 2012, for the rental of a Xerox 7001 photocopier and a Xerox 7545P photocopier. This lease calls for sixty (60) monthly payments of \$2,642 commencing on November 1, 2012, and ending on October 31, 2017. Rental expense for the year ending September 30, 2013 on this lease was as follows:

Base Rent	\$ 29,062
Property Tax	2,527
Property Damage Surcharge	1,798
Filing Fee	<u>110</u>
Total	\$ <u>33,497</u>

Future minimum payments due under this lease are as follows:

Year Ending September 30,

2014	\$ 31,704
2015	31,704
2016	31,704
2017	31,704
2018	<u>2,642</u>
Total	\$ <u>129,458</u>

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 6 - Commitments: (Continued)

Telephone Rental -

The District of Columbia Public Charter School Board entered into an operating lease on June 17, 2010 with XO Communications for the rental of an Avaya IP telephone system. This lease is effective for a three year period commencing on December 13, 2010. In addition to monthly varying charges for interstate services, this lease calls for monthly recurring charges of \$1,337. Rental expense under this lease for the year ended September 30, 2013 was \$21,728. Future minimum payments due under the above lease are as follows:

<u>Year Ending September 30,</u>	<u>Phone Rental</u>
2014	\$ 2,674
Total	<u>\$ 2,674</u>

Note 7 - Contingencies and Risk Management:

The viability of public charter schools and funding for these schools and the D.C. Public Charter School Board is dependent on the consensus of current and future administration of the District of Columbia Government. Any future change in dynamics could adversely affect the operation of public charter schools.

The District of Columbia Public Charter School Board is subject to various litigation and claims arising out of the course of its operations. While the results of the lawsuits cannot be predicted with certainty, management does not believe these matters will have an adverse effect on the organization's overall financial position. The organization assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

Note 8 - Economic Dependency:

The District of Columbia Public Charter School Board derived seventeen percent (17%) of its current year revenues from appropriations as enacted by the District of Columbia Appropriation Bill, as well as an additional sixteen percent (16%) from supplemental District of Columbia Grants. Administrative fees received from two charter schools represent twelve percent (12%) of current year revenues.

Note 9 - Subsequent Events:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through April 5, 2014, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 10 - Pension Plan:

The District of Columbia Public Charter School Board provides pension benefits for its employees through a defined contribution 403(b) retirement plan which is currently administered by TIAA-Cref. 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 the statutory limits set by the Internal Revenue Code. On the plan effective date, which began in June 1999, all current employees were eligible to participate in the retirement plan. All future employees will be eligible to participate upon hiring. Plan provisions and contribution requirements are established and may be amended by the board members of the District of Columbia Public Charter School Board. There is no unfunded past service liability.

Effective January 1, 2007, the District of Columbia Public Charter School Board began matching 1.5% for every 1% the employee contributes up to 3%. There is a further match of .5% for every 1% between 3.1% up to 5%.

The Board's contributions on all covered employees amounted to \$100,643.

Note 11 - Fringe Benefits:

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

Social Security	\$ 181,178
Unemployment	7,223
Health Insurance	114,078
Retirement	100,643
Workers Compensation	5,483
Disability	12,561
Life Insurance	3,957
Commuter Benefits	26,280
De Minimus	<u>1,712</u>
Total Fringe Benefits	<u>\$ 453,115</u>

Transportation Plan - The District of Columbia Public Charter School adopted a Section 132(f) Commuter Expense Reimbursement Plan. Under this plan, employees receive reimbursement for commuting to and from work on a tax favored (pre-tax) basis. The Public Charter School Board reimburses for commuter vehicle expense, transit passes, and qualified parking.

Flexible Benefits Plan - The District of Columbia Public Charter School adopted a Section 125 Flexible Benefits Plan (Cafeteria Plan). Under this plan, employees are permitted to use pre-tax-benefit dollars through payroll deduction to pay for insurance premiums, un-reimbursed medical expenses, and dependent care expenses.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS

Note 12 - Consulting:

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

Application Reviews	\$ 25,993
Transcript Reviews	17,443
Qualitative Site Reviews	183,847
Reading Fraud Investigations	91,515
Special Education Reviews and Training	16,444
Financial Reviews	196,294
Technology	409,676
Forensic Consulting	78,881
Other	28,685
PMF Data Analysis	134,027
Contract Revenue	2,400
Staff Consulting	<u>13,260</u>
Total Consulting	<u>\$ 1,198,465</u>

Note 13 - New Accounting Pronouncements:

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB Pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement is effective for periods beginning after December 15, 2011 and was implemented during 2012. The adoption of GASB No. 62 did not have any impact on the entity's financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement only applies to full accrual accounting - governmental activities, business-type activities, proprietary funds, and fiduciary funds. GASB Statement No. 63 is effective for financial statements for fiscal years beginning after December 15, 2011. The adoption of GASB No. 63 did not have any impact on the entity's financial statements.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Federal Grantor/Pass Pass Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Period of Award	Grant Receivable at 10/01/12	Refundable Advance at 10/01/12	<u>Current Year Activity</u>		Grant Receivable at 09/30/13	Refundable Advance at 09/30/13
							Receipts	Disbursements Expenditures		
<u>United States Congress:</u>										
Passed through the District of Columbia Office of State Superintendent of Education:										
Congressional Appropriations	99.XXX	N/A	\$ 1,200,000	10/1/12-9/30/13	\$ 300,000	\$ -	\$ 1,076,525	\$ 795,265	\$ 18,740	\$ -
<u>U.S. Department of Education:</u>										
Passed through the District of Columbia Office of State Superintendent of Education:										
SOAR Act Funding (ESEA)	84.XXX	N/A	\$ 100,000	10/1/12-9/30/13	-	-	-	100,000	100,000	-
Total Federal Awards					\$ 300,000	\$ -	\$ 1,076,525	\$ 895,265	\$ 118,740	\$ -

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

Note 2 - Major Program Selection

The major Federal Awards Program selected for testing is as follows:

UNITED STATES CONGRESS

- Congressional Appropriation

The requirements of Office of Management and Budget Circular A-133 requires all major programs as determined by the auditor on a risk-based approach and/or at least 50% (25% for low risk auditees) of all federal awards be subject to specific control and/or compliance testing. For the District of Columbia Public Charter School Board the program subject to these requirements is listed above. The total expenditures of this program represent 88.83% of the total federal expenditures.

<u>Programs</u>	<u>CFDA #</u>	<u>Amount of Expenditures</u>
Congressional Appropriations	99.XXX	\$ 795,265*
SOAR Act Funding (ESEA)	84.XXX	<u>100,000</u>
Total Federal Awards		<u>\$ 895,265</u>

* Denotes Major Program

Note 3 - Major Program Disclosure

1. Congressional Appropriations

Background:

The Public Charter School Board's primary responsibility is for monitoring charter schools in the areas of academic performance, governance, financial operation, and NCLB compliance. If charter schools are not meeting academic and non-academic performance over a period of time the Public Charter School Board may take action to close the school through revocation, or the school may relinquish their charter. This supplemental payment was made to supplement the Board's capacity to approve, oversee, monitor and close public charter schools.

The supplemental payment is designed to help the Public Charter School Board align its resources with its stated goal of providing appropriate oversight of District of Columbia Public Charter Schools. To facilitate this oversight, the supplemental payment will assist the Public Charter School Board's oversight platform in the following areas:

- a) Performance Management Framework (PMF) - Continued development, implementation, improvement, and administration;

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Note 3 - Major Program Disclosure (Continued)

- b) Qualitative Site Reviews (QSR) - Continued development, implementation, improvement, and administration;
- c) Transcript Reviews (TRs) - Continued implementation, improvement, and administration;
- d) Authorizing Instruments - Continued implementation, improvement, and administration of other tools used to evaluate public charter school academic and fiscal performance as well as compliance with relevant laws, regulations, and charter agreement terms.
- e) Charter School Closures - Implementation of the Public Charter School Board's school closure procedures including, but not limited to the costs of ensuring all students attending a closing charter school find appropriate public school options for the following school year, transfer of the school records, and the costs of overseeing the dissolution of a closing charter school.

While the Public Charter School Board is the authorizer for public charter schools in the District of Columbia, the Office of Public Charter School Financing and Support within the District of Columbia Office of State Superintendent of Education (OSSE) shares responsibility with other OSSE offices to ensure effective oversight and compliance for federal funds awarded by OSSE to D.C. public charter schools. To meet the shared goals of the Public Charter School Board and OSSE, a Memorandum of Understanding was entered into by these parties to support the oversight of charter schools.

Kendall, Prebola and Jones, LLC
Certified Public Accountants

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

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the governmental activities and major fund of the District of Columbia Public Charter School Board, a component unit of the District of Columbia, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise District of Columbia Public Charter School Board's basic financial statements, and have issued our report thereon dated April 5, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District of Columbia Public Charter School Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District of Columbia Public Charter School Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the District of Columbia Public Charter School Board in a separate letter dated April 5, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
April 5, 2014

Kendall, Prebola and Jones, LLC
Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

Report on Compliance for Each Major Federal Program

We have audited the District of Columbia Public Charter School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the District of Columbia Public Charter School Board's major federal programs for the year ended September 30, 2013. The District of Columbia Public Charter School Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District of Columbia Public Charter School Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District of Columbia Public Charter School Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District of Columbia Public Charter School Board's compliance.

Basis for Qualified Opinion on Congressional Appropriation

As described in the accompanying schedule of findings and questioned costs, the District of Columbia Public Charter School Board did not comply with requirements regarding Debarred and Suspended Parties as identified as item 2013-1 and Allowable Costs identified as item 2013-2. Compliance with such requirements is necessary, in our opinion, for the District of Columbia Public Charter School Board to comply with the requirements applicable to that program.

Qualified Opinion on Congressional Appropriation

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District of Columbia Public Charter School Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Congressional Appropriation for the year ended September 30, 2013.

Report on Internal Control over Compliance

Management of the District of Columbia Public Charter School Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District of Columbia Public Charter School Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
April 5, 2014

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

There were no findings in the prior year.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

I. Summary of Auditor's Results

- a. The auditor's report expresses an unqualified opinion on the financial statements of the District of Columbia Public Charter School Board.
- b. No significant deficiencies relating to the audit of the financial statements have been reported.
- c. No instances of noncompliance material to the financial statements of the District of Columbia Public Charter School Board were disclosed during the audit.
- d. No significant deficiencies relating to the audit of the major federal awards program have been reported.
- e. The auditor's report on compliance for the major federal award program for the District of Columbia Public Charter School Board expresses a qualified opinion.
- f. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
- g. The major program of the District of Columbia Public Charter School Board was the "Congressional Appropriation - Supplemental Payment" program.
- h. The dollar threshold utilized to determine Type A programs was \$300,000.
- i. The District of Columbia Public Charter School Board did not qualify as a low-risk auditee.

II. Findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards

There were no findings in the current year.

III. Findings relating to federal awards which are required to be reported in accordance with OMB Circular A-133

Finding 2013-1

Criteria and Condition: In accordance with Section 35 of OMB Circular A-102 of the Common Rule, as well as Code Section 80.35 of the Department of Education Code of Federal Regulations, non-federal organizations are prohibited from contracting for goods or services with parties that are debarred or whose principals are suspended or debarred from performing under a federal award. When a non-federal organization enters into a contract with a party for an amount greater than \$25,000, the organization must verify that the entity and its principals are not suspended or debarred or otherwise excluded from participating in a federal award. The program did not comply with this requirement as it relates to "Debarred and Suspended Parties."

Context: During the year ended September 30, 2013, the District of Columbia Public Charter School Board entered into a contract for services with a financial consulting firm for which an amount of \$156,095 of federal funds was utilized for the payment of such services. The organization did not utilize agency recommended procedures to ensure that the consultant was eligible for participation in a Federal Award program.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

III. Findings relating to federal awards which are required to be reported in accordance with OMB Circular A-133 (Continued)

Finding 2013-1 (Continued)

Cause: The District of Columbia Public Charter School Board has been party to a contract with this financial consulting firm for multiple years. For the first time since its establishment, the Public Charter School Board utilized federal dollars to supplement a portion of the yearly contract with this consultant because a portion of the federal award was to include financial reviews of charter schools. Since this was the first such federal grant, it is the belief of management that the Chief Financial Officer who was a member of the staff at the time was not aware of the requirement or the need to verify that contractors have not been debarred or suspended from performing work under a federal award.

Effect: By not obtaining the proper evidence to ensure that a party is not debarred or suspended from doing work on a federal award could ultimately result in the Public Charter School Board contracting with an otherwise ineligible party. The organization has since obtained the appropriate executed certifications from the contractor whose services were retained during the year ended September 30, 2013. As such, the amount of federal funds utilized for this contract in the amount of \$156,095 is not considered a questioned cost.

Recommendation: The Federal agency recommends that debarred and suspended verification be accomplished through one of three methods. These methods include (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration, (2) collecting a separate executed certification from the entity, or (3) adding a clause or condition to the actual contract with the contracting party. We recommend any of these methods to satisfy this requirement and we have provided a sample certification to the current Chief Financial Officer.

Views of Responsible Official: In response to this finding, PCSB now takes a dual approach in verifying whether a party is not debarred or suspended from conducting work on a federal award. Currently, PCSB checks the Excluded Parties List System (EPLS) maintained by the General Service Administration and collects a separate executed certification from the entity as an additional safeguard.

Finding 2013-2

Criteria and Condition: In accordance with OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Attachment B (11)(h), under the heading of "Compensation for Personnel Services," employees who work on multiple activities or cost objectives are required to maintain personnel activity reports or equivalent documentation. These activity reports must reflect an after the fact determination of the actual activity of each employee and they must account for the total activity for which the employee is compensated. In addition, these activity reports must be completed on at least a monthly basis and they must be signed by the employee. The program did not comply with this requirement as it relates to "Allowable Costs," specifically the preparation of employee activity reports.

DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

III. Findings relating to federal awards which are required to be reported in accordance with OMB Circular A-133 (Continued)

Finding 2013-2 (Continued)

Context: During the year ended September 30, 2013, the District of Columbia Public Charter School Board requested reimbursement from the Department of Education for personnel services in the amount of \$72,526. This amount was determined by the Chief Financial Officer employed at the time by taking the base salary of six (6) separate employees and applying the estimated percentages of employee effort dedicated to the work completed under the federal grant. The employees did not complete monthly activity reports as required to substantiate the actual amount of effort devoted to the federal award activities.

Cause: The District of Columbia Public Charter School Board's primary mission is to monitor and provide services to public chartered schools with the District of Columbia. Traditionally the Public Charter School Board has not required employees to prepare personnel activity reports since there has only ever been one primary activity and there was no specific need to separately identify time devoted by employee. Once the federal award was issued, the need to maintain separate personnel activity reports was not known since this was not standard practice. The thought that the personnel cost could be determined by the Chief Financial Officer at the conclusion of the grant term was believed to be acceptable.

Effect: If personnel activity reports are not maintained on a monthly basis, this could potentially result in a federal program being overcharged for compensation for personnel services. The organization has since instituted controls to ensure that if wages are charged to any future federal grant, monthly personnel activity reports will be prepared. During the audit, inquiry was made of a sample of the six employees effected and it was determined that the estimated percentages utilized for the reimbursement of cost were reasonable. It was determined that the estimates were conservative and had activity reports been utilized, the resultant amount of wages chargeable to the federal grant would have actually been larger. As such, the amount of salaries charged to the federal grant in the amount of \$72,526 is not considered a questioned cost.

Recommendation: We recommend that management of the District of Columbia Public Charter School Board approach the remaining employees from the original six and request that they provide a written certification to the effect that the estimated percentages applied to their wages represented at an absolute minimum the amount of time devoted to the federal program activities. In addition, we recommend that personnel activity reports be completed on a monthly basis for any future federal awards.

Views of Responsible Official: PCSB approached the remaining employees from the original six and requested a written certification that the estimated percentages applied to their wages represented an absolute minimum of time devoted to the federal program activities. Currently, PCSB's school closure specialists and other employees submit signed, bi-weekly personnel activity reports.