

WASHINGTON LATIN SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2007 AND JUNE 30, 2006

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Washington Latin School  
Washington, DC

We have audited the accompanying statements of financial position of Washington Latin School (a non-profit organization and DC public charter school) as of June 30, 2007 and June 30, 2006, and the related statements of activities and changes in net assets, and statement of cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 our audits provide 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 Washington Latin School as of June 30, 2007 and June 30, 2006, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007, on our consideration of Washington Latin School's internal control over financial reporting and on our tests of 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 the results of our audit.



Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The statements of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements of Washington Latin School. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Martin & Wall, P.C.*

Washington, DC  
September 27, 2007

THE WASHINGTON LATIN SCHOOL  
STATEMENTS OF FINANCIAL POSITION  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	\$50,515	\$2,492
Accounts receivable (Note 4)	184,780	0
Due from Cambridge Advisory	<u>104</u>	<u>4,983</u>
	<u>235,399</u>	<u>7,475</u>
Fixed Assets (Note 5)		
Computer equipment	35,204	2,423
Office equipment	14,499	750
Furniture & fixtures	80,361	0
Books	88,396	0
Leasehold improvements	<u>119,049</u>	<u>0</u>
	337,509	3,173
Less: accumulated depreciation & amortization	<u>(51,334)</u>	<u>0</u>
	<u>286,175</u>	<u>3,173</u>
Other Assets		
Security deposits	<u>62,000</u>	<u>65,000</u>
TOTAL ASSETS	<u>\$583,574</u>	<u>\$75,648</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	75,713	52,021
Current portion of long-term debt	<u>120,000</u>	<u>5,000</u>
	<u>195,713</u>	<u>57,021</u>
Noncurrent liabilities		
Long-term debt, less current portion (Note 5)	<u>400,000</u>	<u>400,000</u>
Total liabilities	<u>595,713</u>	<u>457,021</u>
Net Assets		
Restricted (Note 6)	0	0
Unrestricted	<u>(12,139)</u>	<u>(381,373)</u>
	<u>(12,139)</u>	<u>(381,373)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$583,574</u>	<u>\$75,648</u>

The accompanying notes are an integral part of these financial statements.

THE WASHINGTON LATIN SCHOOL  
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
 FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<b>UNRESTRICTED NET ASSETS</b>		
Revenues and gains		
DC per pupil funding	\$1,924,591	\$0
DC per pupil facility funding	89,920	0
Federal entitlements	246,758	119,030
Private grants & contributions	300,176	48,718
Out of state tuition	15,348	0
Investment income	3,987	0
Other income	<u>19,678</u>	<u>16</u>
	<u>2,600,458</u>	<u>167,764</u>
Expenses* (Note 2)		
Program services	1,626,294	393,878
General and administrative	578,770	76,727
Fundraising	<u>26,160</u>	<u>35,697</u>
	<u>2,231,224</u>	<u>506,302</u>
CHANGE IN NET ASSETS	369,234	(338,538)
NET ASSETS, BEGINNING OF YEAR	<u>(381,373)</u>	<u>(42,835)</u>
NET ASSETS, END OF YEAR	<u>(\$12,139)</u>	<u>(\$381,373)</u>

\*See Supplemental Information for Schedule of Functional Expenses

The accompanying notes are an integral part of these financial statements.

THE WASHINGTON LATIN SCHOOL  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATIONAL ACTIVITIES</b>		
Change in net assets	\$369,234	(\$381,373)
Adjustments to reconcile change in net assets to net cash provided:		
Depreciation and amortization	51,334	0
(Increase) in accounts receivable	(184,780)	0
Decrease (increase) in due from Cambridge Advisory	4,879	(4,983)
Increase (decrease) in accounts payable and accrued expenses	<u>23,692</u>	<u>(13,941)</u>
Net cash provided by (used by) operational activities	<u>264,359</u>	<u>(400,297)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment, furniture and fixtures, books, and leasehold improvements	(334,336)	(2,251)
Refund of security deposit	<u>3,000</u>	<u>0</u>
Net cash used by investing activities	<u>(331,336)</u>	<u>(2,251)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans	<u>115,000</u>	<u>405,040</u>
	<u>115,000</u>	<u>405,040</u>
Net increase in cash	48,023	2,492
Cash, beginning of year	<u>2,492</u>	<u>0</u>
Cash, end of year	<u>\$50,515</u>	<u>\$2,492</u>

The accompanying notes are an integral part of these financial statements.

THE WASHINGTON LATIN SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

The Washington Latin School (“Washington Latin”), a nonprofit organization incorporated in the District of Columbia, has been granted 501(c)(3) status by the Internal Revenue Service, and has been granted a charter as a DC public charter school by the District of Columbia Public Charter School Board, as authorized by the DC School Reform Act.

As a DC public charter school, Washington Latin has a guaranteed funding stream from the District of Columbia (per pupil funding) and the U.S. federal government (federal entitlements for education, school lunch and other programs) provided it meets compliance requirements. A DC public charter school is considered a Local Education Association (LEA) under federal education programs for most purposes. As a DC public charter school, Washington Latin enjoys significant freedom from the budget and operational restrictions placed on traditional public schools, allowing it to create a unique educational mission and approach.

The Washington Latin School is a 5-12 college preparatory school offering a vigorous program of the arts and sciences within an environment that encourages serious scholarship, independence of thought and clarity of expression. Washington Latin's classical curriculum is formed around the trivium of grammar, logic and rhetoric and informed by a canon of great texts and significant primary sources that have helped shape and define our civilization.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements of Washington Latin are prepared on the accrual basis of accounting.

Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, Washington Latin is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and temporarily and/or permanently restricted net assets. There were no temporarily or permanently restricted net assets at June 30, 2007 or 2006.

THE WASHINGTON LATIN SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Presentation (continued)

In addition to SFAS 117, the District of Columbia Public Charter School Board (DCPCSB) prescribes the form and content of monthly financial and performance reports. This includes use of standard expense categories recommended by DCPCSB. The Statements of Activities displays the SFAS 117 expense classifications (i.e. program services, general and administrative, and fundraising). The Statement of Functional Expenses displays the DCPCSB recommended expenses categories, as modified for the particular reporting needs of the organization.

Restricted and Unrestricted Support and Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support and investment earnings that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported revenues and expenses. Actual results could vary from the estimates, which were assumed in preparing the financial statements.

Functional Expense Allocation Policies & Procedures

As per SFAS 117, expenses are allocated into functional categories: program services, general and administrative, and fundraising. Program service costs pertain to educating students. General and administrative costs pertain to supporting activities. Fundraising expenses for the years ended June 30, 2007 and 2006 represented an allocation of the executive director's and principal's compensation based upon percentage of time spent on fundraising activities.

Management has established functional expense allocation policies and procedures based on reasonable analysis of cost drivers and reasonable allocation estimates based on financial results and industry standards.

THE WASHINGTON LATIN SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Functional Expense Allocation Policies & Procedures (continued)

Personnel expenses for salaries are divided into employee categories (administrative, teachers, other educational staff, and other staff) and then a percentage of time spent on program services, general and administrative activities, and fundraising activities is applied. All other personnel expenses (benefits, payroll taxes, staff development) are allocated based on the weighted average allocation of the direct salaries.

Direct student expenses (textbooks, materials, computers, instructional equipment, classroom furnishings and supplies, assessment material, contract educational services, field trips and miscellaneous) are allocated entirely to program services.

Occupancy expenses are allocated based on estimated square footage used for program services versus general and administrative activities and fundraising activities.

For other expenses where it would not be appropriate to designate 100 percent as a program service cost, general and administrative cost, or fundraising cost, the allocation formula for either personnel expenses or occupancy expenses is utilized for cost allocation purposes.

The Statement of Functional Expenses contained in the Supplemental Information presents a detailed breakdown of how each expense category is allocated between program services, general and administrative activities, and fundraising activities. Expense categories in the Statement of Functional Expenses are based upon a standard general ledger provided by the DC Public Charters School Board, which is utilized by Washington Latin for its day-to-day accounting and monthly financial reporting to the DC Public Charter School Board.

Donated Services

Washington Latin does not receive any material in-kind contributions of services. Therefore, no in-kind contributions of donated services are booked.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

Washington Latin considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**NOTE 4 – ACCOUNTS RECEIVABLE**

At June 30, 2007, total accounts receivable were \$184,780, which included \$169,317 due from the District of Columbia.

THE WASHINGTON LATIN SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

**NOTE 5 – FIXED ASSETS**

All expenditures for equipment, furniture, and leasehold improvements in excess of \$500 and with a useful life in excess of one year are capitalized at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are stated at cost and are amortized over the life of the operating office space lease.

**NOTE 6 – LONG-TERM DEBT**

Washington Latin School’s long-term debt at June 30, 2007 and 2006 consists of the following:

<b>Creditor</b>	<b>2007</b>	<b>2006</b>
Washington First Bank	\$480,000	\$400,000
Glenn Kautt	5,000	5,000
Steve Watson	<u>35,000</u>	<u>0</u>
	520,000	405,000
Less: current portion	<u>(120,000)</u>	<u>(5,000)</u>
<b>Total</b>	<b>\$400,000</b>	<b>\$400,000</b>

These debts are secured by the general assets of the organization.

**NOTE 7 – COMMITMENTS**

Subsequent to the statement of financial position date, Washington Latin began leasing a building at 3855 Massachusetts Avenue, N.W., Washington, DC. The lease was entered into in January 2006, became effective in July 2006, and expires in July 2008. The lease contains an option to renew.

The following is a schedule of minimum lease payments required by the lease:

Year Ending June 30, 2008	<u>\$384,000</u>
Total	<u>\$384,000</u>

The total rent paid for the year ended June 30, 2007 was \$363,609. Prior to July 2007, Washington Latin leased an administrative office only. The rent paid for this office was \$18,000 for the year ended June 30, 2006.

THE WASHINGTON LATIN SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

**NOTE 8 – CONTRACTOR PAYMENTS IN EXCESS OF \$25,000**

DC public charter schools are required by law to follow DC government competitive bidding and procurement practices for all business arrangement in excess of \$25,000 in the fiscal year, except for any contract to lease or purchase real property, any employment contract for a staff member of a public charter school, or any management contract entered into by the public charter school and the management company designated in its charter or its petition for revised charter. DC public charter schools are also are required to disclosure these contractor payments exceeding \$25,000. All contracts required to be competitively bid and receive prior approval from the DC Public Charter School Board have met that requirement.

Below is a list of contractor payments in excess of \$25,000 in the fiscal year ended June 30, 2007.

<b>Vendor Name</b>	<b>Services Provided</b>	<b>Amount Paid</b>
Christ Church	Building lease	\$385,681.61
Rand	Construction	\$183,744.57
Office Max	Furniture	\$83,934.12
JTE	School bus transportation	\$67,900.00
Carefirst Blue Cross Blue Shield	Health insurance	\$67,623.00
Carney Sandoe	Recruitment	\$45,112.50
National Cathedral School	Gym facility rental	\$25,840

Below is a list of contractor payments in excess of \$25,000 in the fiscal year ended June 30, 2006.

<b>Vendor Name</b>	<b>Services Provided</b>	<b>Amount Paid</b>
Cambridge Advisory (T.R. Ahlstrom)*	Head Master	\$80,602.74
Mark McIntrye	External affairs/marketing	60,000.00
Carney Sandoe	Placement service for teachers	37,145.50

\*Payments made to T.R. Ahlstrom, the Head Master, while serving as an independent contractor.

**NOTE 9 – INCOME TAXES**

Washington Latin is exempt from federal income tax (except taxes on unrelated business income, if any) under section 501(c)(3) of the Internal Revenue Code. Washington Latin reports its activities annually by filing an Internal Revenue Service form 990.

**SUPPLEMENTARY INFORMATION**

THE WASHINGTON LATIN SCHOOL  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2007

<u>Expense Category</u>	<u>Total</u>	<u>Program Services</u>	<u>General &amp; Administrative</u>	<u>Fundraising</u>
Personnel-Administrative	\$298,407	\$83,554	\$199,933	\$14,920
Personnel-Teachers	527,651	527,651	0	0
Personnel-Other educational professionals	59,877	59,877	0	0
Personnel-Other staff	135,812	38,027	97,785	0
Personnel-Payroll taxes	86,050	60,235	25,815	0
Personnel-Employee benefits	95,953	67,167	28,786	0
Personnel-Staff development	16,381	11,467	4,914	0
Personnel expenses other	39,955	27,969	11,987	0
Direct Student Costs	175,521	175,521	0	0
Occupancy expenses	451,341	414,981	36,360	0
Office expenses	115,842	0	115,842	0
General Expenses-Insurance	18,794	7,518	11,276	0
General Expenses-Bank service charges	3,420	0	3,420	0
General Expenses-Travel	4,846	4,846	0	0
General Expenses-Professional Services	76,616	53,631	22,985	0
General Expenses-Marketing	37,465	22,479	3,747	11,240
General Expenses-Interest	35,958	25,171	10,787	0
General Expenses-Depreciation & amortization	51,334	46,201	5,133	0
	<u>\$2,231,223</u>	<u>\$1,626,294</u>	<u>\$578,770</u>	<u>\$26,160</u>

The accompanying notes are an integral part of these financial statements.

THE WASHINGTON LATIN SCHOOL  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2006

<u>Expense Category</u>	<u>Total</u>	<u>Program Services</u>	<u>General &amp; Administrative</u>	<u>Fundraising</u>
Salaries, payroll taxes and benefits	\$128,409	\$128,409	\$0	\$0
Professional Services	176,906	137,987	38,919	0
Marketing	118,991	71,395	11,899	35,697
Occupancy Expenses	18,000	16,200	1,800	0
Travel	14,366	14,366	0	0
Insurance	10,065	4,026	6,039	0
Office Expenses	8,857	0	8,857	0
Accrued Expenses	65,816	65,816	0	0
Other Expenses	<u>30,708</u>	<u>21,496</u>	<u>9,212</u>	<u>0</u>
	<u>\$572,118</u>	<u>\$459,694</u>	<u>\$76,727</u>	<u>\$35,697</u>

The accompanying notes are an integral part of these financial statements.



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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*

To the Board of Directors of  
Washington Latin School  
Washington, DC

We have audited the financial statements of Washington Latin School as of June 30, 2007 and 2006, and for the years then ended, and have issued our report thereon dated September 27, 2007 2007. We conducted our audits 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.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Washington Latin School'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 an opinion on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. Material weaknesses are reportable conditions 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.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington Latin School'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. Those compliance requirements included audit, financial management, financial reporting, internal control, and procurement requirements promulgated by the United States Government, District of Columbia and District of Columbia Public Charter School Board for recipients of public monies. 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*.

This report is intended solely for the information and use of the audit committee, management, District of Columbia Public Charter School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Martin & Wall, P.C.*

Washington, DC  
September 27, 2007