



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2008-5132-17C

INDEPENDENT STATE AUDITOR'S REVIEW
OF CERTAIN ASPECTS OF
CHARTER SCHOOL FINANCIAL RESULTS
AND FINANCIAL REPORTING
JULY 1, 2003 THROUGH JUNE 30, 2007

**OFFICIAL AUDIT
REPORT
FEBRUARY 18, 2009**

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INTRODUCTION

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Charter schools are public schools that, to a large extent, operate administratively and financially independent of the conventional school district structure. Chapter 71, Section 89, of the Massachusetts General Laws defines a Commonwealth charter school as “a public school, operated under a charter granted by the board of education, which operates independently of any school committee and is managed by a board of trustees.” In addition to state tuition payments, charter schools, like other public schools, may receive federal and state grant funds. Charter schools, however, are not eligible for the Commonwealth’s School Building Assistance grant funding for costs associated with capital projects, including school construction, reconstruction, or improvement work. Charter schools may also receive funds and other donations from private contributors.

Chapter 71, Section 89(gg), of the General Laws requires charter schools to submit to the Massachusetts Department of Elementary and Secondary Education (DESE) an annual report for the preceding year in a form prescribed by the DESE. According to this statute, this report is to include a discussion of progress made toward the achievement of the goals set forth in the charter, and a financial statement set forth by appropriate categories of the revenues and expenditures for the year just ended.

Our audit included a follow-up review and update of the Office of the State Auditor's (OSA) prior charter school audit report entitled, Independent State Auditor's Review of Certain Aspects of Charter School Financial Results and Financial Reporting, Fiscal Years 2002 and 2003 (No. 2004-5110-17C). Our specific objectives were to (a) determine whether DESE had implemented our prior audit recommendations and suggestions for improving and standardizing financial reporting by charter schools (b) review financial reports prepared by charter schools for fiscal years 2004, 2005, and 2006, to assess the financial results of these charter schools in terms of their net income and net assets, as well as their general financial condition based on certain financial ratios, and (c) conduct a limited review of each charter schools fiscal year 2007 net asset balances. In addition, our audit included a comparison of the procurement requirements and the end-of-year financial and pupil enrollment reporting and procurement requirements of charter schools and public school districts to identify any differences. The results of our review are discussed below.

AUDIT RESULTS

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1. IMPROVEMENTS IN FINANCIAL REPORTING AND PROCUREMENT PRACTICES

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Our prior audit report (No. 2004-5110-17C) found that charter schools used four different reporting models when preparing their financial statements. These models included (a) organizations engaged in business-type activities, (b) organizations engaged in government-type activities, (c) organizations engaged in both business- and government-type activities, and (d) organizations operating as nonprofit organizations. Moreover, the various reporting models used by the charter schools, in some instances, limited the ability for effective comparisons to be made between certain charter schools account balances. Consequently, based on the limitations we encountered during our

review of charter schools' financial statements, we recommended that DESE consider establishing more specific guidelines as to what reporting model charter schools should use in preparing their financial statements. Our follow-up review found that DESE now requires all charter schools operating in the Commonwealth to prepare their financial statements as an organization engaged in business-type activities. In addition, we determined that, beginning in fiscal year 2006, DESE began collecting detailed revenue and expense data from charter schools that use accounts for general and special education that are comparable to the ones used by public school districts. As a result, comparisons between public school districts and charter schools are now possible. Finally, during our audit, we contacted each charter school and were provided with information that indicates that all but two of these schools had developed formal policies and procedures relative to the procurement of goods and services.

2. BASED ON NET INCOME AND NET ASSET AMOUNTS CHARTER SCHOOLS ARE REPORTING AND VARIOUS OTHER FINANCIAL MEASURES, MOST CHARTER SCHOOLS CONTINUE TO BE FINANCIALLY SOUND

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Our prior audit found that the majority of charter schools operating within the Commonwealth realize positive annual net income and net assets. For example, we found that 38 of the 48 charter schools that reported fiscal year 2003 data had net income during that fiscal year. The total net income for these 38 schools ranged from \$4,159 to \$1,037,799, with an average of \$254,239. Further, 24 of the 38 charter schools reported net income equal to or greater than 5% of their total revenue, ranging from 5% to 24%, with an average of 11.3%. In contrast, nine of the charter schools had a net loss for fiscal year 2003. The net loss realized by these nine schools ranged from \$1,785 to \$307,442, with an average of \$116,394. One charter school had operating losses for both fiscal years 2002 and 2003; however, a related-party organization reduced its management fee by the amount of the losses to the extent that the school operated on a break-even basis.

Our follow-up review found that the majority of charter schools continue to realize positive annual net income. During fiscal year 2004, we found that 38 of 48 charter schools that reported financial information had net income ranging from \$23,159 to \$6,811,518, with an average of \$607,278. On average, the net income realized by these 38 schools during this fiscal year represented approximately 13.5% of their total revenue. In contrast, 10 charter schools had a net loss for fiscal year 2004. The total net loss for these 10 schools ranged from \$14,162 to \$364,674, with an average of \$104,682. Similarly, we found that 44 of 55 charter schools had net income during fiscal year 2005 ranging from \$18,735 to \$1,974,034, with an average of \$472,136. On average, net income realized by these 44 schools represented approximately 11% of their total revenue. In contrast, 11 of the charter schools reported net losses for fiscal year 2005. These losses ranged from \$1,798 to \$704,179, with an average net loss of \$138,702. Our review of fiscal year 2006 data indicated that 46 of 57 charter schools had reported positive net income. Total net income for these 46 schools ranged from \$389 to \$2,317,947, with an average of \$365,053. On average, the net income realized by these 46 schools represented 8% of their total revenue. In contrast, 11 charter schools reported net losses ranging from \$12,391 to \$474,387, with an average of \$178,873.

Relative to net assets of charter schools, as of June 30, 2003, our prior audit found that cumulative net assets of the 48 charter schools totaled \$54,975,231, with an average

balance of \$1,169,686. Since many charter schools had portions of their net asset balances invested in fixed assets, these amounts were not all available for use by the schools. By reducing asset balances by these amounts, the average net asset balance available was \$844,631. Our follow-up review found that as of June 30, 2006, cumulative net assets of 57 charter schools was \$115,444,682 with an average balance of \$2,025,345. The cumulative amount of net assets invested in fixed assets was \$31,717,535. After deducting this amount from the cumulative net asset balance, the net asset balance available is \$83,727,147 with an average balance of \$1,468,897. As of June 30, 2007, cumulative net assets of 57 charter schools that were operating with students was \$132,697,272, with an average balance of \$2,328,022. Appendix B of this report provides information on each charter school's net assets as of June 30, 2006 and June 30, 2007.

During our prior audit, we also found that, based on certain financial ratios we calculated, charter schools are generally in good financial health. For example, the current ratio provides an indication of a school's ability to meet its short-term debt obligations in the near future. The higher the current ratio number, the more likely an entity is able to meet its obligations. During fiscal year 2003, charter schools had current ratios that ranged from .2 to 68.29, with an average of 7.1. Our follow-up audit, found that during fiscal year 2006, charter schools had current ratios that ranged from .1 to 22.1, with an average of 4.47.

Based on our analysis, most of the charter schools operating within the Commonwealth continue to operate from a fiscally sound position. However, unlike public schools, factors such as changes in student enrollment can have a significant impact on the fiscal solvency of these schools.

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INTRODUCTION

Background

In Massachusetts, charter school legislation was signed into law with the Education Reform Act of 1993, Chapter 71, Section 89, of the Massachusetts General Laws. This law provided for a maximum of 25 Commonwealth Charter Schools to be granted by the Board of Education. The original law included the following six purposes for establishing a charter school:

- To stimulate the development of innovative programs within public education;
- To provide innovative learning and assessment;
- To provide parents and students with greater options in choosing schools within and outside their school district;
- To provide teachers with a vehicle for establishing schools with alternative, innovative methods of educational instruction and school structure and management;
- To encourage performance-based educational programs; and
- To hold teachers and school administrators accountable for students' educational outcomes.

A 1997 amendment to Chapter 71 increased the total number of charter schools to 37. This amendment also added a maximum of 13 additional schools called Horace Mann charter schools. According to Chapter 71, Section 89, Horace Mann charter schools differ from Commonwealth charter schools as follows:

A Commonwealth school charter is independent of any school. A Horace Mann charter school is a school or part of a school that operates under a charter approved by the local school committee and the local teachers' union and granted by the Board of Education. To the extent provided by the terms of their charters, Horace Mann schools may be exempt from local collective bargaining agreements, provided that employees of the school continue to (a) be members of the local collective bargaining unit; (b) accrue seniority; and (c) receive, at minimum, the salary and benefits established by the local collective bargaining agreement. Employees will be exempt from all union and school committee work rules to the extent provided by their charter.

Chapter 71, Section 89, of the General Laws was again amended during fiscal year 2000 to allow up to 120 charter schools (72 Commonwealth and 48 Horace Mann schools.) For the 2007-2008 school year, the Massachusetts Department of Elementary and Secondary Education (DESE)

projected that there will be 61 charter schools (54 Commonwealth and seven Horace Mann) operating within Massachusetts serving approximately 26,000 students (see Appendix C).

Charter schools are public schools that, to a large extent, operate administratively and financially independent of the conventional school district structure. Chapter 71, Section 89, of the General Laws defines a Commonwealth charter school as “a public school, operated under a charter granted by the board of education, which operates independently of any school committee and is managed by a board of trustees.” The law further states, “The board of trustees of a commonwealth charter school, upon receiving a charter from the board of education, shall be deemed to be public agents authorized by the commonwealth to supervise and control the charter school.” Charters are granted for a period of five years, and a charter school must demonstrate its ability to achieve fiscal and operational viability as well as fulfill the objectives of its charter within the five-year period of its initial charter issuance in order to gain DOE approval for an extension of its charter.

In our prior audit report, we noted that the Massachusetts House of Representatives and State Senate subsequently approved amendments to their fiscal year 2005 budget proposals that prevented any new charters from being granted until the end of 2005. On February 27, 2007, the state’s Board of Education granted a charter to one new Commonwealth charter school: the Pioneer Valley Chinese Immersion Charter School (regional). In addition, the board granted renewal applications from four Commonwealth charter schools: Academy of the Pacific Rim Charter School (Boston), Christa McAuliffe Regional Charter Public School, Edward W. Brooke Charter School (Boston), and North Central Essential Charter School (regional).

Financial Reporting

Our prior audit report noted that Chapter 71, Section 89, of the General Laws provided limited guidance to charter schools relative to financial reporting. The law as amended requires charter schools to submit to DESE and other interested parties an annual report for the preceding year in a form prescribed by DESE. According to this statute, this report is to include the following:

- A discussion of progress made toward the achievement of the goals set forth in the charter
- A financial statement setting forth by appropriate categories the revenues and expenditures for the year just ended

Subsequently, Chapter 46 of the Acts of 1997 amended this legislation by inserting Subsection (hh), which states:

Each charter school shall keep an accurate account of all its activities, receipts and expenditures and shall have an independent audit performed annually. The report must be filed annually with the Department of Education (DOE) and the Office of State Auditor (OSA), and must be in a form prescribed by the State Auditor. The State Auditor may investigate the budget and finances etc. of the schools, examine the records and prescribe accounting methods and periodic reports.

In response to this legislation, the Office of the State Auditor (OSA) initiated a review of the financial recordkeeping practices of charter schools. The results of the review were reported in Audit Report No. 99-4080-9, entitled, State Auditor's Report on Establishing Standardized Accounting and Reporting Methods for Massachusetts Charter Schools Pursuant to Chapter 46 of the Acts of 1997. This report did not specify a specific financial reporting model for charter schools to use in preparing their financial statements. Rather, in this report, the OSA developed for implementation a basic chart of accounts, pro forma budgets, and financial reports, in addition to those required by generally accepted accounting principles (GAAP) for charter schools to utilize. This chart of accounts prescribes the minimum accounts that are necessary to develop consistent and meaningful financial reports. In addition, this report recommended the following: (1) certain charter schools should modify the chart of accounts as necessary to accommodate their unique operational situation, (2) DESE should amend its current regulations to require charter schools operating within the Commonwealth to maintain their financial records in accordance with GAAP, (3) all independent annual audits of these schools should be performed in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States and should comply with Office of Management and Budget Circular A-133 requirements, if appropriate, and (4) DESE should require that all charter schools submit a copy of the independent auditor's management letter with the financial reports and, as appropriate, provide further guidance to charter schools relative to the utilization of this information.

Funding

Commonwealth charter schools cannot charge an application fee and tuition. Rather, payments to the charter schools are funded through deductions from the local aid accounts (Chapter 70 of the General Laws) of the districts in which charter school students reside or the sending district. During our prior audit period, charter school funding was generally based on the per-pupil tuition rate of the sending district and determined as follows: (a) if a student attending a charter school resides in a

district with a positive foundation gap, as defined in Chapter 70, Section 2, of the General Laws, the Commonwealth shall pay tuition to the school equal to the average cost per student in said district; (b) if the student resides in a district that does not have a positive foundation gap, the tuition paid to the school shall be equal to the lesser of: (1) the average cost per student in said district and (2) the average cost per student in the district in which the charter school is located.

On September 17, 2004, the Governor signed into law Chapter 352 of the Acts of 2004, Section 31 of which amended the charter school statute and created a new method of calculating tuition for Commonwealth charter schools. Whereas the old rate used an average for all of the pupils in the sending district, the new one relies upon the Chapter 70 foundation budget approach to determine individual pupils' costs. (Appendix A of this report details the process presently utilized for calculating charter school tuition.) The State Treasurer is authorized to deduct the charter school tuition from the total education aid, as defined in Chapter 70, of the district in which the student resided prior to the distribution of said aid.

In addition to state tuition payments, charter schools, like other public schools, may receive federal and state grant funds. Charter schools, however, are not eligible for the Commonwealth's School Building Assistance grant funding for costs associated with capital projects, including school construction, reconstruction, or improvement work. Under the charter school law, charter schools may incur temporary debt in anticipation of receiving funds, provided that the terms of repayment do not exceed the duration of the school's charter without the permission of the Board of Education. Charter schools may also receive funds and other donations from private contributors.

In March 2005, the Massachusetts Association of School Superintendents, Charter School Task Force (MASS Task Force) issued a report entitled, *Beyond Discord: Resolving The Tension Between Charter And Public Schools*, which recommended certain changes in charter school financing and financial accountability. Although DESE is not charged with implementing these changes, and our review was not a review of DESE's administration of charter schools within the Commonwealth, we included within Appendix H of this report DESE's position on the MASS Task Force's recommended financial changes to charter school operations. Also included within Appendix H is the Massachusetts Charter Public School Association (MCPSA) response to the financing and financial accountability changes recommended by the MASS Task Force.

Audit Scope, Objectives, and Methodology

Our audit scope included (a) a follow-up review of our prior audit report entitled, Independent State Auditor’s Review of Certain Aspects of Charter School Financial Results And Financial Reporting, Fiscal Years 2002 and 2003 (No. 2004-5110-17C) (b) an updated review and analysis of each charter school’s fiscal year 2004, 2005, and 2006 financial statements, and (c) a limited review of each charter school’s fiscal year 2007 net asset balances. The purpose of our audit was to determine the following:

- Whether DESE implemented audit recommendations identified in our prior report (No. 2004-5110-17C) for improving and standardizing financial reporting by charter schools.
- The financial status of each charter school in terms of their net income and net assets, as well as each school’s general financial condition, based on certain financial ratios.
- Any differences between public school district and charter school end-of-year financial and pupil reporting and procurement requirements.

To meet our audit objectives, we requested DESE to detail the extent that it implemented our prior audit recommendations for improving and standardizing financial reporting by charter schools. We also contacted each charter school to identify the policies and procedures they follow when procuring goods and services, e.g., Chapter 30B of the General Laws (the Uniform Procurement Act).

In addition, we reviewed a number of regulatory criteria that pertain to how charter schools are to prepare their financial statements. These pronouncements include several Government Accounting Standards Board (GASB)¹ pronouncements, as follows:

- GASB 14, The Financial Reporting Entity
- GASB 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments
- GASB 39, Determining Whether Certain Organizations Are Component Units
- We also reviewed the following information published by DESE:
- Charter School Recommended Audit Guide – June 2005

¹ The Government Accounting Standards Board is a nonprofit organization responsible for establishing and improving accounting and reporting standards for governmental units.

- Fiscal Policies and Procedures Guide – November 2005
- The Charter School Administrative and Governance Guide – May 2005
- Charter School Technical Advisory 98-1: Procurement Guidelines for Commonwealth Charter Schools
- Charter School Technical Advisory 03-1; Horace Mann Charter Schools

We then performed various analyses on the audited financial statements of the 58 charter schools that provided financial information to the OSA covering fiscal years 2004, 2005, and 2006, as well as a limited review of charter schools net asset balances for fiscal year 2007. Specifically, we documented each charter school's net income and net asset fund balances and, where possible, the changes in these balances during the accounting periods covered by our review. In conducting our analysis, we combined the revenues and expenses from both the charter schools and their component units due to the significance of component unit's operational and financial relationship with charter schools. Moreover, since charter schools have access to their component unit's financial resources, we believe that combining the revenues and expenses of each charter school with those of its component unit provides a true picture of the charter school's financial health and ability to operate effectively in the future. Appendix G of this report lists the 32 charter schools that reported component units for fiscal year 2006. In addition, the 58 charter schools that reported financial information to the OSA included schools operating with students as well as schools in a planning period prior to opening. Since the nature of financial activity in a charter school's planning period is materially different from a school that is operating with students, we excluded the financial results of planning schools from the statewide averages and ranges that are detailed in this report to prevent skewing of this information. However, in order to fully report on the financial operations of charter schools, we included the financial results of charter schools operating with students as well as charter schools in a planning period within the summary tables and Appendices presented within the report. The table below identifies the charter schools that were in a planning phase during the audit period.

Charter Schools Operating without Students

Charter School	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
Advanced Math and Science Academy C.S.	X	X	
Berkshire Arts and Technology C.S.	X		
Boston Preparatory C.S.	X		
Community Charter School of Cambridge	X	X	
Hill View Montessori Charter Public School	X		
Holyoke Community C.S.	X	X	
KIPP Academy Lynn C. S.	X		
Marston Mills East HM Charter Public School	X		
Salem Academy C.S.	X		
Roxbury Charter High Public School			X ²

We then compared this information to regulations established by the state's Operational Services Division (OSD), the state agency responsible for regulating and overseeing the activities of nonprofit human service providers that contract with the Commonwealth. The OSD regulations that we used in our analysis, 808 Code of Massachusetts Regulations (CMR) 1.03(7), establish specific levels of net income (surplus revenue) and net assets (cumulative surplus revenue balances) that OSD allows the state's nonprofit human service providers to realize in order to properly capitalize their operations. In making this comparison, we recognized that the operational and financial aspects of nonprofit human service providers and charter schools differ and, therefore, a direct comparison of charter schools' operations to these criteria may not be reasonable. Consequently, we used OSD's regulations merely as a benchmark to determine whether the net income and net assets charter schools are realizing are at least what the Commonwealth allows nonprofit human service providers to realize to properly capitalize their operations.

We then used the information in these charter school financial reports to calculate various financial ratios. For the purposes of our analysis, we calculated three types of financial ratios: liquidity, profitability, and leverage. Although charter schools are nonprofit organizations, we decided to calculate various profitability ratios in order to assess how efficiently charter schools are using their revenue. This is a relevant and important measure, since charter schools need to generate sufficient

² Roxbury Charter High Public School discontinued its operations on 12/23/2005. Therefore, it operated with students for only half of fiscal year 2006.

net assets (surplus revenues) in order to remain financially solvent and properly capitalize their operations. The financial ratios we calculated are as follows:

a. Liquidity Ratio:

Current Ratio = Current assets/current liabilities. This ratio provides an indication of a school's ability to meet its cash obligations in the near future by demonstrating the extent to which a school's current liabilities are covered by its current assets when converted to cash. The higher the current ratio, the greater ability the organization has to meet its short-term liabilities or obligations.

b. Profitability Ratios:

Profit Margin = Change in net assets (net income)/total revenue. This ratio measures a school's ability to turn revenue into net income. The higher the ratio, the more efficient the school has been in the use of its revenue.

Return on Assets = Change in net assets (net income)/total assets. This ratio is a measure of the school's ability to earn a return on its assets. The higher the ratio, the more effectively a school is using its total assets.

c. Leverage Ratios:

Debt to Equity = Total liabilities/net assets, end of year. This ratio measures total liabilities as a percent of net assets. The lower the ratio, the more assets an organization has to cover its total liabilities.

The purpose of our financial analysis was to obtain an understanding of the overall financial strength of each charter school in terms of its ability to continue to operate and adequately meet its financial obligations. Our audit was not conducted for the purposes of determining the appropriateness of the level of state funding being provided to charter schools. Such an assessment would involve conducting comprehensive audit work at each charter school and assessing their organizational and operational activities to determine the specific causes of any surplus or deficit fund balance situation. Rather, our review was conducted for the purposes of obtaining a general picture of the financial viability of the charter schools operating within the Commonwealth based on a limited review of reserves and other account balances.

AUDIT RESULTS

1. IMPROVEMENTS IN FINANCIAL REPORTING AND PROCUREMENT PRACTICES

Our prior audit report (No. 2004-5110-17C) recommended that the Massachusetts Department of Elementary and Secondary Education (DESE) consider establishing more specific guidelines on the reporting model that charter schools should use in preparing their financial statements. During our prior review, we found that charter schools used four different reporting models when preparing their financial statements, as follows:

- Organizations engaged in business-type activities (DESE-recommended method) – used by 38 schools.
- Organizations engaged in government-type activities – used by six schools.
- Organizations engaged in both business and government-type activities – used by one school.
- Organizations operating as nonprofit organizations – used by three schools.

Moreover, the various reporting models used by charter schools, in some instances, limited the ability for effective comparisons to be made between certain charter school account balances. For example, the first three reporting models listed above identify the amount of the organization's net asset balances that is invested in fixed assets (e.g., furniture and equipment) and is therefore not available for use. However, the fourth model (organizations operating as a nonprofit organization) does not disclose this information in its presentation of net assets.

During our follow-up review, we found that DESE issued updated versions of the Massachusetts Charter School Recommended Fiscal Policies and Procedures Guide and the Massachusetts Charter School Audit Guide during November and June 2005, respectively. These documents clarify that charter schools should adopt accounting policies and financial reporting of special-purpose government entities that engage in business-type activities consistent with the Governmental Accounting Standards Board (GASB), Statement of Governmental Accounting Standards No. 34. For fiscal year 2006, we found that all 58 charter schools prepared their financial statements as a business-type entity in accordance with GASB 34. Thus, there is adequate assurance that DESE has implemented our recommendation in this area.

In addition, our prior audit noted that in June 1999 GASB issued GASB 34, which establishes reporting requirements for state and local governments on long-term capital investments

(including infrastructure) and accounting. GASB 34 calls for state and local governments to do the following:

- Calculate the original cost of infrastructure constructed or improved during the 20-year period prior to the statement's issuance date in the annual financial reports.
- Choose to report how much of the estimated original cost has been "used up" or depreciated in the intervening years or, if they meet certain requirements, report as expense the cost to maintain and renew the infrastructure on an annual basis.
- Ensure that all new infrastructure is either depreciated or has its maintenance requirements accounted for.

Although the effective date of implementation of this pronouncement by governmental organizations, including charter schools, varies depending on their revenue, most charter schools did not have to implement GASB 34 until after June 15, 2003. Despite this, our prior audit found that 36 of 45 charter schools that identified themselves as a government-type (as opposed to a nonprofit) entity had implemented GASB 34 and reported in this manner as of June 30, 2003, whereas the remaining nine charter schools had not yet implemented this pronouncement. The three charter schools that identified themselves as nonprofit organizations would not be required to implement GASB 34.

Our prior report noted that the implementation of GASB 34 by these 36 charter schools created problems with our analysis. First, given the change in reporting requirements of GASB 34 (e.g., long-term capital investment costs), in some cases it was difficult to compare the results of operations between schools. This is because those charter schools that had implemented GASB 34 included the costs of their long-term capital investments (e.g., buildings) and their associated depreciation expenses in their financial statements, whereas many of those charter schools that had not implemented GASB 34 expensed capital items when purchased and may not have included a fixed asset account in their financial statements. Also, unless charter schools that had implemented GASB 34 during fiscal year 2003 had restated their fiscal year 2002 financial information to account for the reporting changes imposed by GASB 34, it was difficult to make year-to-year comparisons of these charter schools.

During our follow-up review, we found that each charter school's fiscal year 2006 financial statements reported on long-term capital assets in accordance with GASB 34. As a result, it was possible to make effective comparisons between charter schools' operating results during the

audit period. The results of these comparisons are detailed within Audit Result No. 2 of this report.

Beginning in fiscal year 2006, DESE began collecting detailed revenue and expense data from charter schools in a report entitled Charter School End of Year Financial Report in order to provide a consistent categorization of such data. The report consists of four schedules: Statement of Net Assets; Statement of Revenue, Expenses, and Changes in Net Assets; Statement of Functional Expenses; and Supplemental Schedule of Additional Data.

During our audit, we reviewed the fiscal year 2006 End of Year Financial Reports submitted by Charter Schools to DESE and compared the information in these reports to the End of Year Pupil and Financial Reports submitted by public school districts to DESE during this fiscal year. Based on our review, we found that the document uses accounts for general and special education that are comparable to the ones used by public school districts for reporting revenues and expenses. As a result, financial comparisons are now possible between public school districts and charter schools.

In August 1995, the former Executive Office of Education issued Charter School Legal Memorandum 95-13, which informed Massachusetts charter schools that they, like other public schools, were required to comply with provisions of certain state laws, including Chapter 30B of the General Laws, commonly referred to as the Uniform Procurement Act. This law requires public entities to follow specific competitive procurement procedures when procuring certain goods and services. However, in 1998 the then Department of Education (DOE) reexamined the issue of the applicability of Chapter 30B to charter schools. At that time, DOE sought guidance from the Office of the Inspector General, the state's Office of the Attorney General, and the Commonwealth's Operational Services Division (OSD). Based on the guidance it received from these organizations, in July 1998 DOE developed and issued Charter School Technical Advisory 98-1 to clarify the procedures that Commonwealth Charter Schools must employ in the procurement of goods and services. This advisory states that, although Chapter 30B does not apply to charter schools, they are required to "follow sound business practices and generally accepted government auditing standards" as a condition of their charter, whereby they must implement "responsible procurement policies."

In addition, DOE issued Massachusetts Charter School Recommended Fiscal Policies & Procedures Guide (Guide) in November 2005. This document serves as a reference guide for charter schools to follow when developing their procurement policies and procedures. Section

701 of this document provides charter schools with instructions on the procurement of goods and services, as detailed, in part, below:

701 Procurement-Goods and Services: ...Procurements are made using best value contracting which includes assessing the best value considering quality, performance and price. MGL, Chapter 30B is not required to be followed by Commonwealth Charter Schools, based on DOE Technical Advisory 98-1: Procurement Guidelines for Commonwealth Charter Schools. However, the school will use a competitive procurement process, which requires sound business practices for purchases less than \$1,000. The school will also select the best value by obtaining three written quotes for items greater than \$1,000 and less than \$5,000. Finally, a formal bid process will be used for items greater than \$5,000, in which three bids will be received and evaluated using a formal evaluation process...

During our audit, we contacted each charter school and found that most of the 58 charter schools that provided us with financial information for fiscal year 2006 had developed formal procurement policies and procedures. Specifically, when procuring goods and services, 35 charter schools followed the procurement practices outlined in DESE's Fiscal Policies and Procedures Guide for Charter Schools, 11 charter schools followed the requirements of Chapter 30B, 10 charter schools included internally developed procurement policies as part of their overall business practices, one charter school (Roxbury Charter High Public School) was no longer in operation, and one charter school (the Marblehead Charter School) did not respond to our request. The following table details the procurement policies that Commonwealth charter schools have adopted as part of their system of internal controls.

Charter School	DESE Fiscal Policy Guide	MGL Chapter 30B	Internal Procurement Policies
Abby Kelley Foster Regional Charter School			X
Academy of the Pacific Rim Charter School	X		
Academy of Strategic Learning Charter School		X	
Advanced Math and Science Academy Charter School	X		
Atlantis Charter School			X
Barnstable Horace Mann Charter School		X	
Benjamin Banneker Charter School	X		
Benjamin Franklin Classical Charter Public School	X		
Berkshire Arts and Technology Charter School		X	
Boston Collegiate Charter School		X	
Boston Day Evening Academy Charter School		X	
Boston Preparatory Charter Public School	X		
Boston Renaissance Charter Public School	X		
Cape Cod Lighthouse Charter School	X		
Champion Charter School		X	
Christa McAuliffe Regional Charter School			X
City on a Hill Charter Public School	X		
Codman Academy Charter School	X		
Community Charter School of Cambridge	X		
Community Day Charter School		X	
Conservatory Lab Charter School	X		
Edward Brooke Charter School	X		
Excel Academy Charter School	X		
Four Rivers Charter Public School	X		
Foxborough Regional Charter School	X		
Francis W. Parker Essential Charter School			X
Health Careers Academy Charter School		X	
Hill View Montessori Charter School	X		
Holyoke Community Charter School			X
Kipp Academy Lynn Charter School	X		
Lawrence Family Development Charter School			X
Lowell Community Charter Public School			X
Lowell Middlesex Academy Charter School			X

Charter School	DESE Fiscal Policy Guide	MGL Chapter 30B	Internal Procurement Policies
Marblehead Community Charter School ³			
Marstons Mills East HM Charter Public School		X	
Martha's Vineyard Charter School	X		
Media and Technology Charter High School	X		
Murdoch Middle Public Charter School			X
Mystic Valley Regional Charter School	X		
Neighborhood House Charter School			X
New Bedford Global Learning Charter School	X		
New Leadership Charter School	X		
North Central Charter Essential School	X		
Pioneer Valley Performing Arts Charter School	X		
Prospect Hill Academy Charter School	X		
Rising Tide Charter Public School		X	
River Valley Charter School	X		
Robert M. Hughes Academy Charter School	X		
Roxbury Charter High Public School ⁴			
Roxbury Preparatory Charter School	X		
SABIS International Charter School		X	
Salem Academy Charter School	X		
Seven Hills Charter School	X		
Smith Leadership Academy Charter School	X		
South Shore Charter Public School	X		
Sturgis Charter Public School	X		
Uphams Corner Charter School	X		
Western Mass. Hilltown Cooperative Charter School	X		

2. BASED ON NET INCOME AND NET ASSET AMOUNTS CHARTER SCHOOLS ARE REPORTING AND VARIOUS OTHER FINANCIAL MEASURES, MOST CHARTER SCHOOLS CONTINUE TO BE FINANCIALLY SOUND

Our prior audit found that the majority of the charter schools operating within the Commonwealth realize positive net income and net assets. For example, we found that 38 of the 48 charter schools that reported fiscal year 2003 data had net income during that fiscal year.

The total net income for these 38 schools ranged from \$4,159 to \$1,037,799, with an average of

³ Marblehead Charter School did not respond to our request for information.

⁴ Roxbury Charter High Public School discontinued operating on 12/23/05.

\$254,239. Further, 24 of the 38 charter schools reported net income equal to or greater than 5% of their total revenue, ranging from 5% to 24%, with an average of 11.3%. In contrast, nine of these schools had a net loss for fiscal year 2003. The net loss realized by these nine schools ranged from \$1,785 to \$307,442, with an average net loss of \$116,394. One charter school had operating losses for both fiscal years 2002 and 2003; however, a related-party organization reduced its management fee by the amount of the losses to the extent that the school operated on a break-even basis.

Our follow-up review found that the majority of charter schools continue to realize positive net income. During fiscal year 2004, we found that 38⁵ of 48 charter schools that reported financial information had net income ranging from \$23,159 to \$6,811,518, with an average of \$607,278. On average, the net income realized by these 38 schools during this fiscal year represented 13.5% of their total revenue. In contrast, 10 charter schools had a net loss for fiscal year 2004. The total net loss for these 10 schools ranged from \$14,162 to \$364,674, with an average of \$104,682.

Similarly, we found that 44 of 55 of charter schools had net income during fiscal year 2005 ranging from \$18,735 to \$1,974,034, with an average of \$472,136. On average, net income realized by these 44 charter schools during this fiscal year represented 11% of their total revenue. In contrast, 11 of the charter schools reported net losses for fiscal year 2005. These losses ranged from \$1,798 to \$704,179, with an average net loss of \$138,702.

Finally, our review of fiscal year 2006 data indicated that 46 of 57 charter schools had reported positive net income. The total net income for these 46 charter schools ranged from \$389 to \$2,317,947 with an average of \$365,053. On average, net income realized by these 46 schools represented 8% of their total revenue. In contrast, 11 charter schools reported net losses ranging from \$12,391 to \$474,387, with an average of \$178,873.

In our prior audit we reported that SABIS Foxborough Regional Charter School had operating losses for fiscal years 2002 and 2003. However, a related-party organization, Foxborough Educational Systems, LLC, reduced its management fee by the amount of the losses to the extent that the school operated on a break-even basis.

⁵ During fiscal years 2004 to 2006, charter schools operating with students totaled 48, 55, and 57 schools, respectively. As detailed in the Introduction of this report, during the same period a certain number of charter schools were in a planning period. The financial results of these schools has been excluded from the statewide averages and ranges presented in the report to prevent any skewing of the results. However, we have included the financial information reported by these charter schools in the summary tables and Appendices in this report to help ensure full disclosure.

During our follow-up review, we found that as of July 1, 2003, the SABIS Foxborough Regional Charter School did not renew its management agreement with Foxborough Educational Systems, LLC. Instead, the Board of Directors assumed responsibility for management of the school's operations. Also, as of July 1, 2003, the school requested that the Massachusetts Commissioner of Education approve a request to change its name from "SABIS Foxborough Regional Charter School" to "Foxborough Regional Charter School." The name change was approved by the Massachusetts Commissioner of Education.

Our prior audit report indicated that, based on certain financial ratios we calculated, in most cases charter schools were in good financial health. For example, the current ratio provides an indication of a school's ability to meet its short-term debt obligations in the near future. The higher the current ratio number, the more likely an entity is able to meet its obligations. During fiscal year 2003, charter schools had current ratios that ranged from .2 to 68.29, with an average of 7.1.

Our follow-up review found that during fiscal year 2006 charter schools had current ratios ranging from .1 to 22.1, with an average of 4.47. Although charter schools experienced a decrease in their average current ratios over the past three years (the average declining from 7.1 to 4.47), based upon our analysis, the majority of charter schools still have the ability to meet their short-term debt obligations in the near future and continue to operate from a fiscally sound position. However, as we previously reported, unlike other public schools, factors such as changes in student enrollment can have a significant impact on the fiscal solvency of these schools.

Limitations to OSA Review

a. Revenue Sources Not Always Segregated

During our prior audit, we noted that several of the charter schools did not segregate state revenue from non-state revenue in their financial reports. As a result, in certain cases the ability to assess the effect that non-state revenue (e.g., federal funds) that charter schools received may have had on their net income (surplus revenues) was limited.

In June 2005, the Department of Education issued its revised Massachusetts Charter School Audit Guide (Guide) effective as of fiscal year 2006. The purpose of the Guide, among other things, is to provide each charter school within the Commonwealth of Massachusetts and its independent auditor with procedures to properly complete the

charter school's annual audit and a uniform approach to financial statement formats. The Guide outlines the requirements that the charter school needs to meet in order to submit the annual audit report in conformity with laws, regulations, and administrative policies governing Massachusetts charter schools.

Section 804 of the Guide discusses the Statement of Revenue, Expenses and Changes in Net Assets, which reflects the operating and non-operating activities of each charter school. Presented within Section 804, is a list of typical charter school revenue and expense items by classification including the following operating revenue items:

- *Tuition*
- *Grants – State*
- *Grants – Federal*
- *Grants – Private*
- *Nutrition Funding - State*
- *Nutrition Funding – Federal*
- *Program Fees*
- *Contributions In-Kind Transportation*
- *Investment Income*
- *Transportation Aid*
- *Circuit Breaker Reimbursement*

The Guide emphasizes that the listing is presented for illustrative purposes only, as each charter school should use professional judgment when determining which revenue and expense categories should be included within the Statement of Revenue, Expenses and Changes in Net Assets. Consequently, our current audit found that the fiscal year 2006 financial statements submitted by 34 charter schools did not distinguish between state, federal, and private grants. Consequently, in these 34 cases, the effect that non-state grants had on their net income (surplus revenues) could not be assessed.

b. Varying Lengths of Operation

As of June 30, 2006, the charter schools involved in our review had been in operation for varying lengths of time ranging from one to 12 years, as detailed below:

School Name*	Year School Began	Years in Operation
Abby Kelley Foster Regional Charter School	1998	8
Academy of Strategic Learning Charter School	2001	5
Academy of the Pacific Rim Charter School	1997	9
Advanced Math and Science Academy Charter School	2005	1
Atlantis Charter School	1995	11
Barnstable Horace Mann Charter School	1999	7
Benjamin Banneker Charter School	2001	5
Benjamin Franklin Classical Charter School	1995	11
Berkshire Arts and Technology Charter School	2004	2
Boston Collegiate Charter School	1998	8
Boston Day and Evening Academy Charter School	1998	8
Boston Preparatory Charter School	2004	2
Boston Renaissance Charter Public School	1995	11
Cape Cod Lighthouse Charter School	1994	12
Champion Charter School of Brockton	1999	7
Christa McAuliffe Regional Charter School	2001	5
City on a Hill Charter Public School	1995	11
Codman Academy Charter School	2002	4
Community Charter School of Cambridge	2005	1
Community Day Charter School	1995	11
Conservatory Lab Charter School	1998	8
Edward Brooke Charter School	2001	5
Excel Academy Charter School	2003	3
Four Rivers Public Charter School	2003	3
Foxborough Regional Charter School	1998	8
Francis W. Parker Charter Essential School	1994	12
Health Careers Academy Charter School	1998	8
Hill View Montessori Charter Public School	2004	2
Holyoke Community Charter School	2005	1
Kipp Academy Lynn Charter School	2004	2
Lawrence Family Development Charter School	1995	11
Lowell Community Charter School	2000	6
Lowell Middlesex Academy Charter School	1994	12
Marblehead Community Charter School	1995	11
Marstons Mills East HM Charter Public School	2004	2
Martha's Vineyard Public Charter School	1995	11
Media and Technology Charter High School	1999	7

School Name*	Year School Began	Years in Operation
Murdoch Middle School	1996	10
Mystic Valley Regional Charter School	1998	8
Neighborhood House Charter School	1995	11
New Bedford Global Learning Charter School	2002	4
New Leadership Charter School	1998	8
North Central Regional Charter Essential School	2002	4
Pioneer Valley Performing Arts Charter High School	1996	10
Prospect Hill Academy Charter School	1996	10
Rising Tide Charter School	1998	8
River Valley Charter School	1999	7
Robert M. Hughes Academy Charter School	1999	7
Roxbury Charter High Public School ⁶	2002	4
Roxbury Preparatory Charter School	1999	7
SABIS International Charter School	1995	11
Salem Academy Charter School	2004	2
Seven Hills Charter School	2001	5
Smith Leadership Academy Charter School	2002	4
South Shore Charter School	2000	6
Sturgis Charter School	1998	8
Uphams Corner Charter School	2002	4
Western Massachusetts Hilltown Cooperative Charter School	1994	12

* Information provided by Department of Education

Since a charter school's net asset fund balance is a cumulative figure (i.e., this figure shows the cumulative net income or surplus revenue that the charter school has accumulated since it has been operating), it could be misleading to compare the net asset balances of charter schools that have only been operating for short periods of time (e.g., nine have been operating for two years or less as of June 30, 2006) and have not had the opportunity to accumulate significant net asset balances to those schools that have been operating for longer periods. Consequently, when reviewing the information in this report, it is important to consider both the length of time the charter schools have been operating when assessing such financial information as their net asset fund balances and the impact this figure had on the calculation of the averages and other financial calculations presented in this report.

⁶ Roxbury Charter High Public School discontinued its operations on 12/23/2005.

c. Financial Statements Were Not Used in Conjunction with Other Information

As we did not review each charter school's individual financial records or operational activities, we therefore cannot comment on the reasons for any surplus or negative net asset balances that may have been realized by the charter schools during the given accounting periods. Although we can draw general conclusions about the financial activities of charter schools in our review, it is not possible to determine such issues as the reasonableness of the amount of funding provided to specific charter schools by the Commonwealth without conducting on-site audits of each charter school. Factors such as student demographics (e.g., number of special education versus regular education students), staffing patterns, and other financial and operational activities, which are unique to each charter school, are not necessarily disclosed in charter school financial statements. These factors and activities would need to be examined in order to reach conclusions about the appropriateness of the amount of state funding being provided to these schools.

Net Asset Balances and Changes in Net Assets or Net Income Reported by Charter Schools Is Generally Positive

Our prior audit found that the majority of charter schools realized positive annual net income and net assets. For example, we found that 38 of the 48 charter schools had net income during fiscal year 2003. The total net income for these 38 schools ranged from \$4,159 to \$1,037,799, with an average of \$254,239. In contrast, nine of the charter schools had a net loss for fiscal year 2003. The net loss realized by these nine schools ranged from \$1,785 to \$307,442, with an average of \$116,394. One charter school had operating losses for fiscal years 2002 and 2003; however, a related-party organization reduced their management fee by the amount of the losses to the extent that the school operated on a break-even basis.

Our follow-up audit also found that the majority of charter schools continue to realize positive net income. During fiscal year 2004, we found that 38 of 48 charter schools that reported financial information had net income that ranged from \$23,159 to \$6,811,518, with an average of \$607,278. On average, the net income realized by these 38 schools during this fiscal year represented approximately 13.5% of their total revenue. In contrast, 10 charter schools had a net loss for fiscal year 2004 ranging from \$14,162 to \$364,674, with an average of \$104,682. For fiscal year 2005, we found that 44 of 55 of charter schools had net income during this fiscal year. The total net income for these 44 schools ranged from \$18,735 to \$1,974,034, with an average net income of \$472,136. On average, the net income realized by

these 44 charter schools during this fiscal year represented approximately 11% of their total revenue. In contrast, 11 of the charter schools reported net losses for fiscal year 2005. These losses ranged from \$1,798 to \$704,179, with an average net loss of \$138,702. Our review of fiscal year 2006 data showed that 46 of 57 charter schools had reported positive net income. The total net income for these 46 charter schools ranged from \$389 to \$2,317,947, with an average of \$365,053. On average, the net income realized by these 46 schools represented 8% of their total revenue. In contrast, 11 charter schools reported net losses ranging from \$12,391 to \$474,387 with an average of \$178,873. The table below details the number and percentage of charter schools that reported net income and net losses during our current and prior audit periods.

Fiscal Year	Charter Schools	Reported Net Gains	Percentage	Reported Net Losses	Percentage
2002	39	32	82%	6 ⁷	18%
2003	48	38	79%	9 ⁷	21%
2004	48	38	79%	10	21%
2005	55	44	80%	11	20%
2006	57	46	81%	11	19%

Concerning net assets of charter schools, our prior audit found that, as of June 30, 2003, cumulative net assets of the 48 charter schools was \$54,975,231, with an average balance of \$1,169,686. Since many charter schools had portions of their net asset balances invested in fixed assets, these amounts were not available for use by the schools. By reducing asset balances by these amounts, the average net asset balance available was \$844,631.

Our follow-up review found that as of June 30, 2006, cumulative net assets of the 57 charter schools was \$115,444,682, with an average balance of \$2,025,345. These amounts represent a 110% and 73% increase in charter schools' net asset balance and average net asset balances, respectively, over the three-year period ended June 30, 2006. In addition, the cumulative amount of net assets invested in fixed assets was \$31,717,535. After deducting this amount from the cumulative net asset balance, the net asset balance available is \$83,727,147, with an average balance of \$1,468,897. This amount represents a 74% increase in the average net assets balance available over the same three-year period.

⁷ SABIS Foxborough Regional Charter School had operating losses for fiscal years 2002 and 2003. However, a related-party organization, Foxborough Educational Systems, LLC, reduced its management fee by the amount of the losses to the extent that the school operated on a break-even basis.

Due to the availability of charter school financial reports for the year ended June 30, 2007 prior to the issuing of this report, we conducted a limited review and included a summary and analysis of net asset balances. As of June 30, 2007 there were 59 charter schools operating within the Commonwealth. Three of these 59 schools were new, two of which were not operating with students. Since the nature of financial activity in a charter school's planning period is materially different from a school that is operating with students, we excluded the two charter schools not operating with students from our analysis. As of June 30, 2007, cumulative net assets of the remaining 57 charter schools was \$132,697,272, with an average balance of \$2,328,022. In addition, the cumulative amount of net assets invested in fixed assets was \$41,197,838. After deducting this amount from the cumulative net asset balance, the net asset balance available is \$91,499,434, with an average balance of \$1,605,253. A comparison of net asset balances between June 30, 2006 and 2007, discounting the three new schools and two closed schools, shows an overall net asset balance increase of \$11,583,191, with an average balance increase of \$206,843.

A summary of our follow-up review in this area for fiscal years 2004, 2005 and 2006 appears in the following table⁸: Our review of charter schools fiscal year 2007 net asset balances appears in Appendix B.

⁸ This table includes the financial data submitted to us by charter schools operating with students as well as those in a planning period.

Charter School	Net Assets Balance		Percent Change in Net Assets Balance	Net Income		Increase (Decrease) in Net Income
	2006	2003		2006	2005	
Abby Kelley Foster Regional Charter School	\$7,890,008	\$4,731,674	66.75%	\$1,547,048	\$1,519,436	\$27,612
Academy of the Pacific Rim Charter School	\$3,165,143	\$1,641,953	92.77%	\$738,352	\$324,288	\$414,064
Academy of Strategic Learning Charter School **	\$24,071	\$65,778	(63.41%)	\$(17,445)	\$(1,798)	\$(15,647)
Advanced Math and Science Academy Charter School	\$510,862	N/A	N/A	\$511,996	\$(1,134)	\$513,130
Atlantis Charter School	\$8,023,611	\$3,894,607	106.02%	\$672,916	\$977,242	\$(304,326)
Barnstable Horace Mann Charter School **	\$1,178,504	\$1,050,975	12%	\$(71,827)	\$(237,476)	\$165,649
Benjamin Banneker Charter Public School	\$2,023,745	\$2,085,980	(2.99%)	\$(349,662)	\$(187,471)	\$(162,191)
Benjamin Franklin Classical Charter Public School	\$2,326,085	\$1,235,987	88.20%	\$118,120	\$378,662	\$(260,542)
Berkshire Arts and Technology Charter School	\$139,465	N/A	N/A	\$113,905	\$(20,720)	\$134,625
Boston Collegiate Charter School	\$3,999,906	N/A	N/A	\$182,390	\$508,871	\$(326,481)
Boston Day and Evening Academy Charter School**	\$499,403	\$557,175	(10.39%)	\$97,506	\$(61,588)	\$159,094
Boston Preparatory Charter Public School	\$1,047,887	N/A	N/A	\$215,824	\$352,312	\$(136,488)
Boston Renaissance Charter School	\$2,933,563	\$1,098,203	167.23%	\$(83,916)	\$514,485	\$(598,401)
Cape Cod Lighthouse Charter School	\$590,584	\$539,156	9.54%	\$2,391	\$18,735	\$(16,344)
Champion Charter School of Brockton **	\$141,531	\$22,380	532.40%	\$57,491	\$41,619	\$15,872
Christa McAuliffe Regional Charter School	\$414,600	N/A	N/A	\$(474,387)	\$402,463	\$(876,850)
City on a Hill Charter Public School	\$1,882,075	\$569,133	230.69%	\$527,857	\$612,660	\$(84,803)
Codman Academy Charter School	\$1,055,554	\$545,120	93.64%	\$83,173	\$158,235	\$(75,062)
Community Charter School of Cambridge	\$806,117	N/A	N/A	\$582,815	N/A	N/A
Community Day Charter School	\$1,758,421	\$1,680,400	4.64%	\$29,180	\$(72,450)	N/P
Conservatory Lab Charter School	\$1,135,378	\$808,063	40.51%	\$9,201	\$217,581	\$(208,380)
Edward Brooke Charter School	\$3,619,798	\$360,002	905.49%	\$2,317,947	\$465,730	\$1,852,217
Excel Academy Charter School	\$1,109,965	N/A	N/A	\$231,185	\$421,855	\$(190,670)
Four Rivers Charter Public School	\$337,255	N/A	N/A	\$26,751	\$(16,482)	\$43,233
Foxborough Regional Charter School	\$2,957,819	N/A	N/A	\$758,533	\$1,462,818	\$(704,285)
Francis W. Parker Charter Essential School	\$2,497,417	\$1,348,408	85.21%	\$528,322	\$419,639	\$108,683
Health Careers Academy Charter School**	\$94,801	\$219,740	(56.86%)	\$50,080	\$(95,470)	\$145,550
Hill View Montessori Charter School	\$480,165	N/A	N/A	\$168,886	\$134,021	\$34,865
Holyoke Community Charter School	\$394,410	N/A	N/A	\$902,474	\$879,499	\$22,975
Kipp Academy Lynn Charter School	\$929,130	N/A	N/A	\$306,164	\$436,705	\$(130,541)
Lawrence Family Development Charter School	\$1,380,641	\$895,909	54.10%	\$172,962	\$160,619	\$12,343
Lowell Community Charter Public School	\$2,245,519	\$796,938	181.77%	\$236,073	\$631,272	\$(395,199)

Charter School	Net Assets Balance		Percent Change in Net Assets Balance	Net Income		Increase (Decrease) in Net Income
	2006	2003		2006	2005	
Lowell Middlesex Academy Charter School	\$581,260	\$303,177	91.72%	\$119,033	\$135,891	\$(16,858)
Marblehead Community Charter School	\$484,569	\$311,326	55.65%	\$60,029	\$203,276	\$143,247
Marstons Mills East HM Charter Public School **	\$254,104	N/A	N/A	\$5,216	\$221,538	\$(216,322)
Martha's Vineyard Charter School	\$1,491,565	\$1,113,581	33.94%	\$389	\$73,394	\$(73,005)
Media and Technology Charter High School	\$3,785,759	\$2,990,901	26.58%	\$(12,391)	\$513,880	\$(526,271)
Murdoch Middle Charter School	\$987,150	\$660,540	49.45%	\$159,003	\$165,011	\$6,008
Mystic Valley Regional Charter School	\$10,867,790	\$5,760,595	88.66%	\$1,906,349	\$1,775,844	\$130,505
Neighborhood House Charter School	\$10,723,995	\$1,638,763	554.40%	\$(140,616)	\$1,974,034	\$(2,114,650)
New Bedford Global Learning Charter School**	\$1,108,188	\$137,306	707.09%	\$373,656	\$303,560	\$70,096
New Leadership Charter School**	\$(428,818)	N/A	N/A	\$(340,081)	\$(4,380)	\$(335,701)
North Central Essential Charter School	\$1,048,805	\$193,948	440.77%	\$(298,054)	\$169,398	\$(467,452)
Pioneer Valley Performing Arts Charter School	\$1,756,540	\$645,790	172.00%	\$431,550	\$297,421	\$134,129
Prospect Hill Academy Charter School	\$5,268,786	\$2,632,286	100.16%	\$609,467	\$1,014,024	\$(404,557)
Rising Tide Charter School	\$1,033,421	\$177,875	480.98%	\$314,595	\$309,136	\$5,459
River Valley Charter School	\$1,615,785	\$822,467	96.46%	\$(84,772)	\$283,325	\$(368,097)
Robert M. Hughes Academy Charter School	\$594,531	\$516,036	15.21%	\$37,546	\$205,883	\$(168,337)
Roxbury Charter High Public School***	\$8,103	\$(1,785)	(553.95%)	\$(9,861)	\$100,352	\$(110,213)
Roxbury Preparatory Charter School	\$3,232,502	\$2,763,032	17.00%	\$223,275	\$260,357	\$(37,082)
SABIS International Charter School*	\$4,897,680	\$2,782,109	76.04%	\$192,031	\$1,020,768	\$(828,737)
Salem Academy Charter School	\$329,277	N/A	N/A	\$67,051	\$243,230	\$(176,179)
Seven Hills Charter School	\$2,015,829	\$1,331,961	51.34%	\$525,202	\$(704,179)	\$1,229,381
Smith Leadership Academy Charter School	\$552,754	\$22,145	2,396.07%	\$94,125	\$336,060	\$(241,935)
South Shore Charter Public School.	\$2,628,606	\$1,470,082	78.81%	\$335,687	\$631,467	\$(295,780)
Sturgis Charter School	\$2,161,395	\$1,379,698	56.66%	\$96,058	\$318,869	\$(222,811)
Uphams Corner Charter School	\$225,238	\$324,797	(30.65%)	\$(94,456)	\$(123,708)	\$29,252
Western Mass. Hilltown Cooperative CS	<u>\$634,538</u>	<u>\$411,809</u>	54.09%	\$52,945	\$58,034	\$(5,089)
Totals	<u>\$115,452,785</u>	<u>\$54,975,231</u>	110.00%			

N/A = Not applicable since the school was not in operation

* The net asset balances presented include net income for fiscal year 2003 and 2006; however, the net income of this charter school is not retained by the school but rather is paid to its management company. The school's retained net assets for fiscal year 2006 and 2007 are presented in Appendix B of this report.

** Horace Mann Charter School

***Roxbury Charter High Public School discontinued operating on 12/23/2005. Since the school's fiscal year 2006 financial statements only covered the six-month period ended 12/31/05, we did not include the information in our statewide analyses of charter school net asset balances presented on the preceding pages of this report.

It is important to note that not all of the charter school net asset balances presented in our report represent funds that are available for use by the school. Many charter schools (all but five) have portions of their net asset balances invested in fixed assets (e.g., furnishings and equipment items), and therefore these amounts are not available for use by the school. (See Appendix B.) In addition, a charter school's net asset balance might consist of unrestricted as well as restricted net assets. Unrestricted net asset balances have no external restrictions as to use or purpose and these amounts can be employed for any purpose designated by the charter school's governing board. However, restricted net asset balances represent amounts whose use are restricted by either a governing board or an outside party. For example, a charter school's governing board may reserve a portion of its net asset balance for future building repairs or other capital needs. In such cases, these reserved amounts are unavailable for any other purposes. Similarly, a portion of a charter school's net asset balance may be held in a sinking fund, debt service fund, or stabilization fund required by lenders. These funds would also be unavailable for use by the charter school.

For charter schools to remain fiscally solvent, sufficient funding needs to be available over and above their annual operating costs in order to properly capitalize their operations. In order to assess the reasonableness of the amounts of surplus revenues being generated and retained by charter schools for these purposes, we identified the amount of surplus revenue that the Commonwealth allows nonprofit human service organization doing business with the Commonwealth to retain. In making this comparison, we recognized that the operational and financial aspects of nonprofit human service providers and charter schools differ and that therefore a direct comparison of charter school operations to this criterion may not be reasonable. Consequently, we used the state's Operational Services Division (OSD) regulations merely as a benchmark to determine whether the net income and net assets that charter schools are realizing are at least what the Commonwealth allows nonprofit human service providers to realize to properly capitalize their operations.

OSD, the state agency responsible for regulating and overseeing human service agencies that contract with the Commonwealth, has established the following surplus revenue retention provision in its regulations, 808 Code of Massachusetts Regulations (CMR) 1.03(7):

Not-for-Profit Contractor Surplus Revenue Retention. If, through cost savings initiatives implemented consistent with programmatic and contractual obligations, a non-profit Contractor accrues an annual net surplus from the revenues and expenses associated with services provided to Departments which are subject to 808 CMR 1.00, the Contractor may retain, for future use, a portion of that surplus not to exceed 5% of said revenues. . . . Surpluses may be used by the Contractor for any of its established charitable purposes, provided that no portion of the surplus may be used for any non-reimbursable cost set forth in 808 CMR 1.05, the free care prohibition excepted. DPS

shall be responsible for determining the amount of surplus that may be retained by each Contractor in any given year and may determine whether any excess surplus shall be used to reduce future prices or be recouped.

According to OSD guidelines, the purpose of this regulation is to encourage providers to expend surplus funds, attributable to Commonwealth agreements, on services to consumers and to allow providers reasonable and acceptable possibilities for increased capitalization. OSD's policy applies to specific revenue (i.e., state contract revenue) and not to the human service provider's total revenue, which could include revenue from non-state sources, such as donations. However, for our analysis we used each charter school's total revenue figures because a number of the charter schools did not segregate their total state revenue from their other sources of revenues and none of the financial statements or notes provided a surplus account solely attributable to state funding as allowed by OSD guidelines.

Our prior audit revealed that for fiscal year 2003, 38 of the 48 charter schools reported net income as opposed to a net loss. The total net income reported by these 38 charter schools ranged from \$4,159 to \$1,037,779, with an average of \$254,239. Twenty-four of the 38 charter schools that reported net income had a net income equal or greater than 5% of their total revenue, ranging from 5% to 24%, with an average of 11.3%.

Our follow-up review found that for fiscal year 2006, 46 of 57 charter schools reported positive net income. The total net income reported by these 46 schools ranged from \$389 to \$2,317,947, with an average of \$365,053. Twenty-six of the 46 charter schools reporting net income had a net income equal to or greater than 5% of their total revenue, ranging from 5% to 34%, with the average being 11.5%.

The table that follows summarizes our work for fiscal year 2006⁹:

⁹ This table includes the financial data submitted to us by charter schools operating with students as well as those in a planning period.

Charter School	Net Income 2006	Total Revenue 2006	Percentage of Net Income to Total Revenue
Abby Kelley Foster Regional Charter School	\$1,547,048	\$12,306,645	13%
Academy of the Pacific Rim Charter School	\$738,352	\$5,543,165	13%
Academy of Strategic Learning Charter School*	\$(17,445)	\$607,089	N/A
Advanced Math and Science Academy Charter School	\$511,996	\$3,496,650	15%
Atlantis Charter School	\$672,916	\$7,519,443	9%
Barnstable Grade Five Charter School *	\$(71,827)	\$8,144,305	N/A
Benjamin Banneker Charter Public School	\$(349,662)	\$4,690,898	N/A
Benjamin Franklin Classical Charter School	\$118,120	\$3,401,883	3%
Berkshire Arts and Technology Charter School	\$113,905	\$2,540,792	4%
Boston Collegiate Charter School	\$182,390	\$5,114,281	4%
Boston Day and Evening Academy Charter School *	\$97,506	\$2,818,706	3%
Boston Preparatory Charter School	\$215,824	\$2,111,552	10%
Boston Renaissance Charter School	\$(83,916)	\$17,503,683	N/A
Cape Cod Lighthouse Charter School	\$2,391	\$2,309,902	.1%
Champion Charter School *	\$57,491	\$898,814	6%
Christa McAuliffe Regional Charter School	\$(474,387)	\$3,536,837	N/A
City on a Hill Charter Public School	\$527,857	\$3,877,933	14%
Codman Academy Charter Public School	\$83,173	\$1,787,256	5%
Community Charter School of Cambridge	\$582,815	\$2,758,590	21%
Community Day Charter School	\$29,180	\$3,993,921	.7%
Conservatory Lab Charter School	\$9,201	\$2,655,184	.4%
Edward Brooke Charter School	\$2,317,947	\$6,804,534	34%
Excel Academy Charter School	\$231,185	\$2,341,439	10%
Four Rivers Charter Public School	\$26,751	\$1,930,288	1%
Foxborough Regional Charter School	\$758,533	\$9,218,192	8%
Francis W. Parker Charter Essential School	\$528,322	\$4,226,689	13%
Health Careers Academy Charter School *	\$50,080	\$2,966,313	2%
Hill View Montessori Charter Public School	\$168,886	\$1,586,221	11%
Holyoke Community Charter School	\$902,474	\$6,787,470	13%
Kipp Academy Lynn Charter School	\$306,164	\$2,337,386	13%
Lawrence Family Development Charter School	\$172,962	\$6,300,321	3%
Lowell Community Charter Public School	\$236,073	\$8,192,894	3%
Lowell Middlesex Academy Charter School	\$119,033	\$1,230,926	10%
Marblehead Community Charter School	\$60,029	\$2,501,613	2%
Marstons Mills East HM Charter Public School *	\$5,216	\$4,306,994	.1%

Charter School	Net Income 2006	Total Revenue 2006	Percentage of Net Income to Total Revenue
Martha's Vineyard Charter School	\$389	\$2,867,259	.01%
Media and Technology Charter High School	\$(12,391)	\$6,028,439	N/A
Murdoch Middle Charter Public School	\$159,003	\$2,829,127	6%
Mystic Valley Regional Charter School	\$1,906,349	\$11,454,534	17%
Neighborhood House Charter School	\$(140,616)	\$6,393,503	N/A
New Bedford Global Learning Charter School *	\$373,656	\$3,426,182	11%
New Leadership Charter School *	\$(340,081)	\$5,164,596	N/A
North Central Charter School	\$(298,054)	\$3,826,559	N/A
Pioneer Valley Performing Arts Charter School	\$431,550	\$4,758,836	9%
Prospect Hill Academy Charter School	\$609,467	\$9,618,794	6%
Rising Tide Charter School	\$314,595	\$2,726,641	12%
River Valley Charter School	\$(84,772)	\$3,052,490	N/A
Robert M. Hughes Academy Charter School	\$37,546	\$2,038,716	2%
Roxbury Charter High Public School **	\$(9,861)	\$232,929	N/A
Roxbury Preparatory Charter School	\$223,275	\$3,385,789	7%
SABIS International Charter School	\$192,301	\$12,824,314	2%
Salem Academy Charter School	\$67,051	\$2,136,637	3%
Seven Hills Charter School	\$525,202	\$8,419,562	6%
Smith Leadership Academy Charter School	\$94,125	\$2,869,136	3%
South Shore Charter School	\$335,687	\$5,272,234	6%
Sturgis Charter Public School	\$96,058	\$3,464,713	3%
Uphams Corner Charter School	\$(94,456)	\$2,436,375	N/A
Western Mass. Hilltown Cooperative Charter School	\$52,945	\$1,614,270	3%

*Horace Mann Charter School

**Charter school discontinued operating as of 12/23/05

N/A=Charter school had a net loss in 2006

Results of our Ratio Analysis Indicate Overall Financial Strength at Most Charter Schools

During our prior and follow-up audits, we calculated certain financial ratios and found that in most cases, charter schools were in good financial health. Specifically, we noted the following:

- **Current Ratio** – The higher the current ratio number, the more likely an entity is able to meet its short-term obligations. Moreover, a ratio under 1 suggests that an entity would be unable to pay off its obligations if they came due. The table below shows that although the average current ratio has declined annually since fiscal year 2003, most charter schools continue to have the financial strength to meet their short-term obligations.

Fiscal Year	Charter Schools	Range of Current Ratios	Average Current Ratio	Current Ratios Less than 1	Current Ratios 1 or Greater
2002	41	.4 to 22.2	4.7	7	34
2003	48	.2 to 68.3	7.1	4	44
2004	47 ¹⁰	.5 to 70.1	5.93	5	42
2005	54	.4 to 32.3	5.93	4	50
2006	56	.1 to 22.1	4.47	4	52

- Profit Margin - The higher the profit margin ratio, the higher the school's net income is in relation to its total income indicating a more efficient use of its revenue. The table below shows that approximately 78% to 85% of charter schools operated profitably during the five-year period ended June 30, 2006. However, although most charter schools report profits, the range of profit margins (a low of .01% to a high of 99.5%) indicates that certain charter schools are operating much more efficiently than others.

Fiscal Year	Charter Schools	Range of Profit Margins	Average Profit Margin	Charter Schools Reported Profits	Percent Reported Profits	Charter Schools Reported Losses
2002	41	.1% to 38%	11.82%	35	85.36%	6
2003	48	.4% to 24%	9.8%	40	83.33%	8
2004	48	1.1% to 99.5%	12.45%	38	79.16%	10
2005	55	.95% to 34%	10.95%	44	80.00%	11
2006	57	.01% to 34%	7.4%	46	80.70%	11

- Return on Assets (ROA) - This measures a charter school's ability to earn a return on its assets. The higher the ratio the better, since it measures a charter school's net income in relation to the total net assets it had to generate this net income. As detailed in the table below, the average ROA for charter schools remained relatively constant for fiscal years 2002 through 2005. However, for fiscal year 2006, charter schools incurred a significant decline in their average ROA, which fell from 22.5% to 11.6%, or a 48% decrease from the preceding year.

Fiscal Year	Charter Schools	Range of ROAs	Average ROAs
2002	41	.5% to 91%	24%
2003	48	1% to 105%	19%
2004	48	1.1% to 38%	17.7%
2005	55	2.4% to 80.1%	22.5%
2006	57	.03% to 52.2%	11.6%

¹⁰ Martha's Vineyard Charter School's current ratio was indeterminable because it reported no liabilities for fiscal years 2004 to 2006. Therefore, we excluded its financial information from this chart.

- Debt to Equity - This ratio measures the amount of debt charter schools have relative to their net asset balances. The lower the number (e.g., less than one) the better, since this indicates that the school has sufficient net assets to meet its long-term debt obligations. In our prior report we noted that because many charter schools had been operating for a relatively short period of time, the range of results when we calculated this ratio varied significantly. Specifically, 12 of the charter schools had been operating two years or less. Similarly, our follow-up review found that nine charter schools that reported information to us had been operating in the Commonwealth for two years or less as of June 30, 2006. Consequently, as detailed in the table below, charter schools continue to have a wide range of debt to equity ratios.

Fiscal Year	Range of Debt to Equity Ratios	Average Debt to Equity Ratios
2002	.01 to 7.81	1.29
2003	.01 to 61.24	4
2004	.014 to 64.83	2.75
2005	.034 to 16.63	1.59
2006	.059 to 77.19	3.40

The table that follows summarizes our work in this area for the current audit period¹¹.

¹¹ This table includes the financial data submitted to us by charter schools operating with students as well as those in a planning period.

Charter School	Current Ratio			Percent Profit Margin			Percent Return on Assets			Debt to Equity Ratio		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
Abby Kelley Foster Regional Charter School	12.4	15.0	4.8	13%	14%	1.1%	18%	23%	2%	.07	.05	.14
Academy of the Pacific Rim Charter School	4.7	5.8	4.3	13%	9%	9.8%	8%	12%	16%	1.93	.12	.13
Academy of Strategic Learning Charter School *	1.3	1.8	1.6	N/A	N/A	N/A	N/A	N/A	N/A	1.82	.67	.54
Advanced Math and Science Academy Charter School	1.9	.8	N/A	15%	N/A	N/A	52.2%	N/A	N/A	.92	NNA	N/A
Atlantis Charter School	3.2	4.9	7.0	9%	13%	30.5%	7%	11%	29%	.25	.25	.29
Barnstable Horace Mann Charter School *	2.6	12.9	6.5	N/A	N/A	5.2%	N/A	N/A	23%	.51	.07	.15
Benjamin Banneker Charter Public School	4.6	5.7	6.3	N/A	N/A	15%	N/A	N/A	25%	.27	.20	.17
Benjamin Franklin Classical Charter School	3.9	6.1	7.4	3%	10%	N/A	4%	13%	N/A	.21	.28	.13
Berkshire Arts and Technology Charter School	.1	.4	1.0	4%	N/A	17.8%	1%	N/A	17%	77.19	16.63	4.75
Boston Collegiate Charter School	5.4	3.1	3.7	4%	10%	27.5%	1%	4%	12%	2.23	2.43	2.7
Boston Day and Evening Academy Charter School *	13.5	9.4	11.6	3%	N/A	N/A	18%	N/A	N/A	.067	.09	.07
Boston Preparatory Charter Public School	10.0	8.3	60.4	10%	21%	72.2%	19%	38%	98%	.094	.12	.02

Charter School	Current Ratio			Percent Profit Margin			Percent Return on Assets			Debt to Equity Ratio		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
Boston Renaissance Charter School	2.4	3.0	1.0	N/A	3%	3.0%	N/A	16%	1.4%	9.64	9.36	11.62
Cape Cod Lighthouse Charter School	3.6	3.4	3.5	.1%	.95%	1.6%	.3%	2.4%	4%	.28	.32	.32
Champion Charter School *	2.0	1.4	0.8	6%	4%	N/A	25%	36%	N/A	.65	.86	64.83
Christa McAuliffe Regional Charter School	.3	1.1	0.6	N/A	10%	7.5%	N/A	25%	17%	1.81	.80	1.66
City on a Hill Charter Public School	5.0	5.5	2.3	14%	17%	N/A	4%	37%	N/A	5.91	.22	.67
Codman Academy Charter Public School	7.3	9.3	9.7	5%	11%	21%	7%	15%	30%	.12	.09	.09
Community Charter School of Cambridge	3.1	N/A	N/A	21%	N/A	N/A	40%	N/A	N/A	.81	N/A	N/A
Community Day Charter School	8.8	8.1	6.0	.7%	N/A	6.5%	2%	N/A	12%	.0682	.08	.09
Conservatory Lab Charter School	3.6	4.1	5.61	.4%	8%	2%	.6%	15%	4%	.28	.25	.21
Edward Brooke Charter School	1.8	1.4	2.5	34%	12%	16.7%	15%	5%	7%	3.16	6.83	7.01
Excel Academy Charter School	4.1	5.1	4.5	10%	17%	8.6%	16%	40%	20%	.30	.21	.21
Four Rivers Charter Public School	1.8	1.8	2.3	1%	N/A	15.1%	1%	N/A	31%	14.77	7.04	.47
Foxborough Regional Charter School	2.1	3.2	1.7	8%	17%	10.4%	6%	45%	38%	3.15	.48	1.60
Francis W. Parker Charter School	15.6	32.3	19.0	13%	10%	6.2%	20%	21%	13%	.07	.04	.06

Charter School	Current Ratio			Percent Profit Margin			Percent Return on Assets			Debt to Equity Ratio		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
Health Careers Academy Charter School *	2.4	1.5	2.9	2%	N/A	N/A	31%	N/A	N/A	.72	2.06	.50
Hill View Montessori Charter School	2.3	1.9	6.2	11%	9%	73.3%	21%	24%	94%	.64	.79	.07
Holyoke Community Charter School	.6	.2	N/A	13%	83.5%	N/A	7%	11%	N/A	29.99	NNA	N/A
Kipp Academy Lynn Charter	14.9	12.5	7.7	13%	31%	78.6%	31%	65%	88%	.059	.08	.14
Lawrence Family Development Charter School	3.1	3.0	2.7	3%	3%	2.6%	9%	9%	9%	.42	.48	.57
Lowell Community Charter Public School	1.4	1.5	3.0	3%	9%	10.4%	6%	19%	19%	.71	.67	1.17
Lowell Middlesex Academy Charter School	10.0	28.9	11.9	10%	12%	2.2%	19%	28%	7%	.10	.034	.08
Marblehead Community Charter School	1.6	12.7	70.1	2%	9%	N/A	5%	43%	N/A	1.30	.11	.014
Marstons Mills East HM Charter Public School *	1.6	1.7	1.1	.1%	5%	39.4%	1%	40%	14%	1.40	1.25	6.12
Martha's Vineyard Charter School	N/L	N/L	N/L	.01%	3%	10.9%	.03%	5%	21%	N/L	N/L	N/L
Media and Technology Charter High School	5.5	4.3	6.3	N/A	9%	4%	N/A	3%	1.1%	4.52	3.67	4.63
Murdoch Middle Public Charter School	1.6	1.4	0.7	6%	6%	1.6%	4%	4%	1.2%	2.85	3.49	4.03
Mystic Valley Regional Charter School	22.1	27.6	6.9	17%	17%	15.5%	13%	14%	15%	.31	.38	.36

Charter School	Current Ratio			Percent Profit Margin			Percent Return on Assets			Debt to Equity Ratio		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
Neighborhood House Charter School	2.6	3.7	8.8	N/A	34%	99.5%	N/A	8%	30%	1.26	1.34	1.52
New Bedford Global Learning Charter School *	1.1	.8	0.5	11%	10%	11.6%	16%	17%	21%	1.12	1.48	2.31
New Leadership Charter School *	.1	.5	0.9	N/A	N/A	N/A	N/A	N/A	N/A	NNA	NNA	N/A
North Central Charter Essential School	3.5	4.1	1.7	N/A	5%	17.8%	N/A	10%	37%	.31	.25	1.05
Pioneer Valley Performing Arts Charter School	1.45	4.18	3.2	9%	7%	12.4%	6%	15%	23%	2.85	.52	.60
Prospect Hill Academy Charter School	4.8	7.6	2.7	6%	12%	11.6%	9%	19%	19%	.25	.16	.50
Rising Tide Charter School	3.8	3.6	1.6	12%	13%	13%	22%	28%	28%	.40	.51	1.20
River Valley Charter School	6.4	7.5	6.5	N/A	9%	15.1%	N/A	15%	28%	.15	.12	.13
Robert M. Hughes Academy Charter School	3.4	3.4	1.1	2%	9%	N/A	5%	15%	N/A	.23	1.51	3.81
Roxbury Charter High School**	.7	.9	N/P	N/A	7%	N/P	N/A	80.1%	N/P	8.39	5.97	N/P
Roxbury Preparatory Charter School	6.1	9.5	7.4	7%	8%	N/A	6%	8%	N/A	.12	.07	.07
SABIS International Charter School	1.4	1.1	1.2	2%	8%	7.2%	11%	28%	36%	.21	.62	.47
Salem Academy Charter School	2.6	2.6	1.1	3%	18%	4.8%	14%	67%	7%	.42	.39	8.74
Seven Hills Charter School	1.7	1.5	5.7	6%	N/A	6.9%	6%	N/A	6%	3.58	4.73	2.17
Smith Leadership Academy Charter School	2.3	2.1	1.3	3%	15%	8%	10%	41%	26%	.63	.80	2.08

Charter School	Current Ratio			Percent Profit Margin			Percent Return on Assets			Debt to Equity Ratio		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
South Shore Charter Public School	5.1	4.6	1.1	6%	12%	5.2%	3%	6%	2%	3.17	3.67	5.72
Sturgis Charter Public School	2.6	2.8	3.1	3%	10%	11.9%	2%	14%	17%	1.23	.16	.23
Uphams Corner Charter School	1.4	2.5	6.4	N/A	N/A	9.8%	N/A	N/A	23%	1.41	.48	.15
Western Mass. Hilltown Cooperative Charter School	8.3	6.9	7.9	3%	4%	8.3%	7%	9%	19%	.12	.16	.12

N/A = Not applicable since the charter school was not in operation or had no profits in the year indicated

NNA = Charter School had a negative asset balance in the year indicated

N/L = School reported no liabilities in the year indicated

NP= Information not provided by Charter School

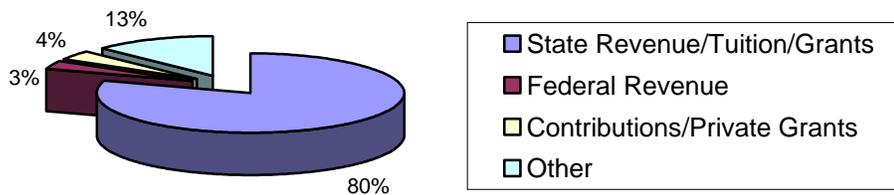
*= Horace Mann Charter School

**=Financial Statements for fiscal year 2006 were as of 12/31/05

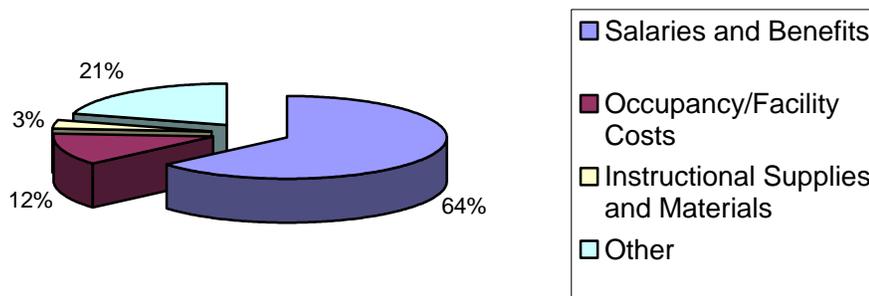
Revenue and Operating Expenses

Appendices D and E show major categories of revenue and spending for each charter school. The following charts show fiscal year 2006 statewide charter school averages in revenue and spending categories:

Breakdown of Operating Revenue



Breakdown of Operating Expenses



APPENDIX A

Charter School Tuition Formula

The goal of the foundation rate formula is to establish a tuition that is comparable to what would have been spent on a charter student had he or she stayed in the home district.

There are three components in the Foundation Rate formula. The first component, the foundation budget base rate, relies on the Chapter 70 foundation budget approach. The second and third components rely on data contained in the End of Year Pupil and Financial Report.

Step 1: Calculate the Foundation Budget Base Rate

The foundation budget is a dollar amount used in the Chapter 70 education aid formula to represent an "adequate" spending level. Inflation-adjusted rates in each of 11 functional areas, such as administration, teaching, guidance services, and maintenance, are further differentiated by a pupil's grade level, program, and low-income status. The functional areas pertaining to salaries are adjusted by a wage factor that seeks to compensate for cost-of-living differences across the state.

The foundation base rate is generated by dividing the foundation budget by the foundation enrollment for each sending district at each charter school. As charter schools do not pay tuition for special education pupils who are educated in out-of-district programs, that particular component of the foundation rate is removed.

Example: Charter school "A," pupils from school district "B"

1) Foundation Budget		200,000
2) Foundation Enrollment		25
3) Foundation Base Rate (1 / 2)		8,000

Step 2: Calculate the Above Foundation Spending Rate

Many districts spend more than their foundation budget requires. To capture this additional spending effort the district's net school spending (NSS), as reported on Schedule 19 of the End of Year Pupil and Financial Report, is compared to its foundation budget and converted into a percentage. This percentage is applied to the foundation base rate, determined in step one, to generate the second component of the rate formula.

NSS includes out-of-district special education costs, and in some instances, retired teachers' health insurance*. As charter schools do not currently incur these costs, the above-foundation share of these costs is removed from the NSS prior to calculation.

Example: School district "B"

4) Budgeted NSS		5,050,000
5) Above foundation out-of-district special education tuition		25,000
6) Above foundation retired teachers' health insurance, where applicable*		25,000
7) Adjusted Budgeted NSS (4 - 5 - 6)		5,000,000

8) Foundation Budget	4,545,500
9) NSS as a percentage of foundation (7 - 8 / 8)	10.0%
10) Above Foundation Spending Rate (3 * 9)	800

Step 3: Calculate the Facilities Tuition Rate

Building costs are a part of a school district's budget. They are not captured in a district's foundation budget or in their NSS. The third component of the rate formula provides charter schools with similar funding via the facilities tuition rate component. It is derived from average statewide spending on school building.

Summary: Per Pupil Foundation Rate

14) Foundation Budget Base Rate	8,000
15) Above-Foundation Spending Rate	800
16) Facilities Tuition Rate	800
17) Total Charter Tuition Rate	9,600

* School finance regulations stipulate that if retired teachers' health insurance was not counted in a district's spending in fiscal year 1993, it does not count towards the district's net school spending in any subsequent year.

APPENDIX B

Charter School Net Asset Summary, June 30, 2006

Charter School	Total Net Assets	Net Assets Invested in Fixed Assets	Net Asset Balance
Abby Kelley Foster Regional Charter School	\$7,890,008	\$1,778,119	\$6,111,889
Academy of the Pacific Rim Charter School	\$3,165,143	\$749,810	\$2,415,333
Academy of Strategic Learning Charter School	\$24,071	\$7,670	\$16,401
Advanced Math and Science Academy Charter School	\$510,862	\$115,187	\$395,675
Atlantis Charter School	\$8,023,611	\$501,694	\$7,521,917
Barnstable Horace Mann Charter School	\$1,178,504	\$220,005	\$958,499
Benjamin Banneker Charter School	\$2,023,745	\$59,801	\$1,963,944
Benjamin Franklin Classical Charter Public School	\$2,326,085	\$330,986	\$1,995,099
Berkshire Arts and Technology Charter School	\$139,465	\$3,078,888	\$(2,939,423)
Boston Collegiate Charter School	\$3,999,906	\$1,884,386	\$2,115,520
Boston Day Evening Academy Charter School	\$499,403	\$82,317	\$417,086
Boston Preparatory Charter Public School	\$1,047,887	\$138,949	\$908,938
Boston Renaissance Charter Public School	\$2,933,563	\$(2,337,806)	\$5,271,369
Cape Cod Lighthouse Charter School	\$590,584	\$146,075	\$444,509
Champion Charter School	\$141,531	\$49,279	\$92,252
Christa McAuliffe Regional Charter School	\$414,600	\$539,608	\$(125,008)
City on a Hill Charter Public School	\$1,882,075	\$778,451	\$1,103,624
Codman Academy Charter School	\$1,055,554	\$220,811	\$834,743
Community Charter School of Cambridge	\$806,117	\$171,307	\$634,810
Community Day Charter School	\$1,758,421	\$27,628	\$1,730,793
Conservatory Lab Charter School	\$1,135,378	\$77,911	\$1,057,467
Edward Brooke Charter School	\$3,619,798	\$115,065	\$3,504,733
Excel Academy Charter School	\$1,109,965	\$71,318	\$1,038,647
Four Rivers Charter Public School	\$337,255	\$90,842	\$246,413
Foxborough Regional Charter School	\$2,957,819	\$1,068,328	\$1,889,491
Francis W. Parker Essential Charter School	\$2,497,417	\$272,465	\$2,224,952
Health Careers Academy Charter School	\$94,801	-	\$94,801
Hill View Montessori Charter School	\$480,165	\$80,357	\$399,808
Holyoke Community Charter School	\$394,410	\$433,797	\$(39,387)
Kipp Academy Lynn Charter School	\$929,130	\$153,177	\$775,953

Charter School	Total Net Assets	Net Assets Invested in Fixed Assets	Net Asset Balance
Lawrence Family Development Charter School	\$1,380,641	-	\$1,380,641
Lowell Community Charter Public School	\$2,245,519	\$838,106	\$1,407,413
Lowell Middlesex Academy Charter School	\$581,260	-	\$581,260
Marblehead Community Charter School	\$484,569	-	\$484,569
Marstons Mills East HM Charter Public School	\$254,104	\$50,958	\$203,146
Martha's Vineyard Charter School	\$1,491,565	\$5,017	\$1,486,548
Media and Technology Charter High School	\$3,785,759	\$691,541	\$3,094,218
Murdoch Middle Public Charter School	\$987,150	\$576,865	\$410,285
Mystic Valley Regional Charter School	\$10,867,790	\$2,806,311	\$8,061,479
Neighborhood House Charter School	\$10,723,995	\$9,062,548	\$1,661,447
New Bedford Global Learning Charter School	\$1,108,188	\$819,515	\$288,673
New Leadership Charter School	\$(428,818)	\$144,637	\$(573,455)
North Central Charter Essential School	\$1,048,805	\$225,525	\$823,280
Pioneer Valley Performing Arts Charter School	\$1,756,540	\$1,069,491	\$687,049
Prospect Hill Academy Charter School	\$5,268,786	\$93,744	\$5,175,042
Rising Tide Charter Public School	\$1,033,421	\$197,292	\$836,129
River Valley Charter School	\$1,615,785	\$314,010	\$1,301,775
Robert M. Hughes Academy Charter School	\$594,531	\$210,691	\$383,840
Roxbury Charter High Public School	\$8,103	-	\$8,103
Roxbury Preparatory Charter School	\$3,232,502	\$1,199,496	\$2,033,006
SABIS International Charter School	\$760,384	\$406,658	\$353,726
Salem Academy Charter School	\$329,277	\$116,945	\$212,332
Seven Hills Charter School	\$2,015,829	\$67,500	\$1,948,329
Smith Leadership Academy Charter School	\$552,754	\$87,588	\$465,166
South Shore Charter Public School	\$2,628,606	\$248,561	\$2,380,045
Sturgis Charter Public School	\$2,161,395	\$1,481,358	\$680,037
Uphams Corner Charter School	\$225,238	\$27,680	\$197,558
Western Mass. Hilltown Cooperative Charter School	<u>\$634,538</u>	<u>\$69,073</u>	<u>\$565,465</u>
Total	<u>\$111,315,489</u>	<u>\$31,717,535</u>	<u>\$79,597,954</u>

APPENDIX B
**Charter School Net Asset Summary,
June 30, 2007**

Charter School	Total Net Assets	Net Assets Invested in Fixed Assets	Net Asset Balance
Abby Kelley Foster Regional Charter School	\$8,654,619	\$2,209,237	\$6,445,382
Academy of the Pacific Rim Charter School	\$3,705,579	\$1,875,034	\$1,830,545
Academy of Strategic Learning Charter School	\$35,510	\$3,088	\$32,422
Advanced Math and Science Academy Charter School	\$881,095	\$170,586	\$710,509
Atlantis Charter School	\$9,142,562	\$460,934	\$8,681,628
Barnstable Horace Mann Charter School	\$1,112,223	\$148,037	\$964,186
Benjamin Banneker Charter School	\$2,112,814	\$36,602	\$2,076,212
Benjamin Franklin Classical Charter Public School	\$2,463,459	\$261,908	\$2,201,551
Berkshire Arts and Technology Charter School	\$214,022	\$4,127,922	\$(3,913,900)
Boston Collegiate Charter School	\$4,623,501	\$1,590,003	\$3,033,498
Boston Day Evening Academy Charter School	\$598,381	\$55,780	\$542,601
Boston Preparatory Charter Public School	\$1,404,290	\$147,896	\$1,256,394
Boston Renaissance Charter Public School	\$3,077,346	\$(2,436,142)	\$5,513,488
Cape Cod Lighthouse Charter School	\$680,617	\$124,244	\$556,373
Champion Charter School ¹²	-	-	-
Christa McAuliffe Regional Charter School	\$424,464	\$396,672	\$27,792
City on a Hill Charter Public School	\$3,867,718	\$1,793,068	\$2,074,650
Codman Academy Charter School	\$1,315,713	\$428,054	\$887,659
Community Charter School of Cambridge	\$1,450,891	\$578,109	\$872,782
Community Day Charter School	\$1,639,504	\$28,914	\$1,610,590
Conservatory Lab Charter School	\$1,283,320	\$113,074	\$1,170,246
Edward Brooke Charter School	\$4,154,172	\$1,686,362	\$2,467,810
Excel Academy Charter School	\$1,279,157	\$51,080	\$1,228,077
Four Rivers Charter Public School	\$258,199	\$30,697	\$227,502
Foxborough Regional Charter School	\$3,900,823	\$1,393,577	\$2,507,246
Francis W. Parker Essential Charter School	\$3,661,626	\$250,570	\$3,411,056
Global Learning Charter Public School ¹³	\$71,711	\$25,377	\$46,334
Health Careers Academy Charter School	\$151,624	-	\$151,624
Hill View Montessori Charter School	\$594,782	\$79,286	\$515,496

¹² No longer open.

¹³ New charter school; began operating with students September 2007. See footnote 14.

Charter School	Total Net Assets	Net Assets Invested in Fixed Assets	Net Asset Balance
Holyoke Community Charter School	\$1,458,071	\$771,484	\$686,587
Kipp Academy Lynn Charter School	\$1,124,150	\$89,124	\$1,035,026
Innovation Academy (Murdoch Middle Public Charter School)	\$1,184,313	\$591,450	\$592,863
Lawrence Family Development Charter School	\$1,612,421	-	\$1,612,421
Lowell Community Charter Public School	\$2,291,766	\$1,090,753	\$1,201,013
Lowell Middlesex Academy Charter School	\$587,103	-	\$587,103
Marblehead Community Charter School	\$584,776	-	\$584,776
Marstons Mills East HM Charter Public School	\$(38,784)	\$39,631	\$(78,415)
Martha's Vineyard Charter School	\$1,384,887	\$42,952	\$1,341,935
The MATCH (Media and Technology Charter High School)	\$5,343,567	\$969,276	\$4,374,291
Mystic Valley Regional Charter School	\$12,648,483	\$5,091,097	\$7,557,386
Neighborhood House Charter School	\$10,705,301	\$9,513,999	\$1,191,302
New Bedford Global Learning Charter School ¹⁴	\$1,213,305	\$956,648	\$256,657
New Leadership Charter School	\$(392,819)	\$153,584	\$(546,403)
North Central Charter Essential School	\$897,025	\$136,048	\$760,977
Phoenix Charter Academy ¹⁵	\$466,917	\$48,273	\$418,644
Pioneer Valley Chinese Immersion Charter School ¹⁶	\$249	-	\$249
Pioneer Valley Performing Arts Charter School	\$2,351,934	\$1,101,656	\$1,250,278
Prospect Hill Academy Charter School	\$8,267,272	\$104,885	\$8,162,387
Rising Tide Charter Public School	\$1,396,931	\$383,872	\$1,013,059
River Valley Charter School	\$1,716,746	\$258,040	\$1,458,706
Robert M. Hughes Academy Charter School	\$768,385	\$193,306	\$575,079
Roxbury Charter High Public School ¹⁷	-	-	-
Roxbury Preparatory Charter School	\$3,796,951	\$1,121,654	\$2,675,297
SABIS International Charter School	\$760,284	\$505,011	\$255,273
Salem Academy Charter School	\$274,991	\$162,233	\$112,758
Seven Hills Charter School	\$2,948,753	\$299,835	\$2,648,918
Smith Leadership Academy Charter School	\$295,094	\$78,296	\$216,798

¹⁴ Effective July 1, 2007, the school completed its initial five-year charter. The school was granted a change from a Horace Mann Charter to a Commonwealth Charter School. Subsequent to June 30, 2007 and in conjunction with the termination of the Horace Mann Charter School, the school transferred its fixed assets to the newly formed Global Learning Charter Public School.

¹⁵ New charter school; began operating with students September 2006.

¹⁶ New charter school; began operating with students August 2007.

¹⁷ No longer open.

Charter School	Total Net Assets	Net Assets Invested in Fixed Assets	Net Asset Balance
South Shore Charter Public School	\$3,030,370	\$162,112	\$2,868,258
Sturgis Charter Public School	\$2,389,526	\$1,593,313	\$796,213
Uphams Corner Charter School	\$273,003	\$33,843	\$239,160
Western Mass. Hilltown Cooperative Charter School	<u>\$668,539</u>	<u>\$100,871</u>	<u>\$567,668</u>
Total	<u>\$132,769,232</u>	<u>\$41,223,215</u>	<u>\$91,546,017</u>

APPENDIX C
Charter School Estimated Enrollment, 2007-2008 School Year

Commonwealth Charter Schools	Location	Grades Served	Pre-Enrollment Total	Students on the Waiting List
Abby Kelley Foster Regional Charter School	Worcester	K-12	1,426	837
Academy of the Pacific Rim Charter School	Boston	05-12	475	284
Advanced Math and Science Academy Charter School	Marlborough	06-09	552	60
Atlantis Charter School	Fall River	K-08	717	410
Benjamin Banneker Charter Public School	Cambridge	K-06	325	244
Benjamin Franklin Classical Charter Public School	Franklin	K-08	426	156
Berkshire Arts and Technology Charter School	Adams	06-12	275	-
Boston Collegiate Charter School	Boston	05-12	425	510
Boston Preparatory Charter Public School	Boston	06-09	305	189
Boston Renaissance Charter Public School	Boston	K-06	1,240	605
Cape Cod Lighthouse Charter School	Orleans	06-08	216	89
Christa McAuliffe Regional Charter School	Framingham	06-08	278	-
City on a Hill Charter Public School	Boston	09-12	280	643
Codman Academy Charter School	Boston	09-12	120	67
Community Charter School of Cambridge	Cambridge	07-11	250	36
Community Day Charter School	Lawrence	K-08	331	829
Conservatory Lab Charter School	Boston	K-06	135	538
Edward Brooke Charter School	Boston	K-08	384	429
Excel Academy Charter School	Boston	05-08	211	205
Four Rivers Charter Public School	Greenfield	07-12	192	70
Foxboro Regional Charter School	Foxboro	K-12	1,113	610
Francis W. Parker Essential Charter School	Devens	07-12	375	210
Global Learning Charter School	New Bedford	5-12	411	92
Hill View Montessori Charter School	Haverhill	K-06	230	296
Holyoke Community Charter School	Holyoke	K-08	702	136
KIPP Academy Lynn Charter School	Lynn	05-08	320	62
Lawrence Family Development Charter School	Lawrence	K-08	600	483
Lowell Community Charter Public School	Lowell	K-08	900	40
Lowell Middlesex Academy Charter School	Lowell	09-12	146	17
Marblehead Community Charter School	Marblehead	04-08	230	133
Martha's Vineyard Charter Public School	West Tisbury	K-12	172	125
Martin Luther King Jr. Charter School of Excellence	Springfield	K-03	240	107

Commonwealth Charter Schools	Location	Grades Served	Pre-Enrollment Total	Students on the Waiting List
Media and Technology Charter High School	Boston	09-12	220	576
Murdoch Middle Public Charter School	Chelmsford	05-09	375	143
Mystic Valley Regional Charter School	Malden/Everett	K-12	1,299	1,766
Neighborhood House Charter School	Boston	PK-08	400	2,063
North Central Charter Essential School	Fitchburg	07-12	375	-
Phoenix Charter Academy	Chelsea	09-12	125	20
Pioneer Charter School of Science	Everett	7-8	96	-
Pioneer Valley Chinese Immersion Charter School	Amherst	K-12	46	11
Pioneer Valley Performing Arts Charter School	South Hadley	07-12	400	195
Prospect Hill Academy Charter School	Somerville/Camb	K-12	964	529
Rising Tide Charter Public School	Plymouth	05-08	300	71
River Valley Charter School	Newburyport	K-08	288	459
Robert M. Hughes Academy Charter School	Springfield	K-08	180	317
Roxbury Preparatory Charter School	Boston	06-08	217	56
SABIS International Charter School	Springfield	K-12	1,536	2,677
Salem Academy Charter School	Salem	06-11	264	99
Seven Hills Charter School	Worcester	K-08	666	312
Smith Leadership Academy Charter Public School	Boston	06-08	216	74
South Shore Charter Public School	Norwell	K-12	529	271
Sturgis Charter Public School	Barnstable	09-12	370	48
Uphams Corner Charter School	Boston	05-08	200	43
Western Mass. Hilltown Cooperative Charter School	Willamsburg	K-08	<u>154</u>	<u>190</u>
Total Commonwealth Enrollment			<u>23,222</u>	<u>18,432</u>
Horace Mann Charter Schools				
Academy of the Strategic Learning Charter School	Amesbury	07-12	47	2
Barnstable Horace Mann Charter School	Marstons Mills	05-06	898	-
Boston Day and Evening Academy Charter School	Boston	09-12	350	-
Champion Charter School	Brockton	09-12	125	20
Health Careers Academy Charter School	Boston	09-12	220	441
Marstons Mills East Horace Mann Charter School	Marstons Mills	K-04	475	38
New Leadership Charter School	Springfield	06-12	525	56
Total Horace Mann Enrollment			<u>2,640</u>	<u>557</u>
Total Charter School Enrollment			<u>25,862</u>	<u>18,989</u>

*Information extracted from DOE website

APPENDIX D

Charter School Summary of Significant Revenue Sources, Fiscal Year 2006

Charter School ¹⁸	Total Revenue	State Revenue Tuition/Grants	% of Total Revenue	Federal Revenue	% of Total Revenue	Contributions/ Private Grants	% of Total Revenue	Other	% of Total Revenue
Abby Kelley Foster Charter School	\$12,306,645	\$11,077,134	90.01%	\$727,185	5.91%	\$5,000	0.04%	\$497,326	4.04%
Academy of the Pacific Rim Charter School	\$5,543,165	\$3,785,699	68.29%	-	0.00%	\$1,525,286	27.52%	\$232,180	4.19%
Academy of Strategic Learning Charter School	\$607,089	\$413,200	68.06%	\$40,087	6.60%	\$150,802	24.84%	\$3,000	0.49%
Advanced Math and Science Academy Charter School (2)	\$3,496,650	\$2,813,207	80.45%	-	0.00%	\$53,737	1.54%	\$629,706	18.01%
Atlantis Charter School	\$7,519,443	\$5,962,790	79.30%	\$486,910	6.48%	\$105,041	1.40%	\$964,702	12.83%
Barnstable Horace Mann Charter School	\$8,144,305	\$7,375,979	90.57%	\$492,333	6.05%	-	0.00%	\$275,993	3.39%
Benjamin Banneker Charter Public School (2)	\$4,690,898	\$4,068,983	86.74%	-	0.00%	\$12,277	0.26%	\$609,638	13.00%
Benjamin Franklin Classical Charter School (2)	\$3,401,883	\$3,172,069	93.24%	-	0.00%	\$6,254	0.18%	\$223,560	6.57%
Berkshire Arts and Technology Charter School (2)	\$2,540,792	\$1,405,763	55.33%	-	0.00%	\$565,415	22.25%	\$569,614	22.42%
Boston Collegiate Charter School (2)	\$5,114,281	\$3,793,070	74.17%	-	0.00%	\$349,336	6.83%	\$971,875	19.00%
Boston Day and Evening Acad. Charter School (2)	\$2,818,706	\$2,783,816	98.76%	-	0.00%	\$28,160	1.00%	\$6,730	0.24%
Boston Preparatory Charter Public School (2)	\$2,111,552	\$1,568,190	74.27%	-	0.00%	\$152,574	7.23%	\$390,788	18.51%
Boston Renaissance Charter Public School	\$17,503,683	\$13,648,305	77.97%	\$2,335,582	13.34%	\$474,299	2.71%	\$1,045,497	5.97%
Cape Cod Lighthouse Charter School	\$2,309,902	\$2,157,886	93.42%	\$68,322	2.96%	-	0.00%	\$83,694	3.62%

¹⁸ We prepared the Summary of Significant Revenue Sources from each charter school's fiscal year 2006 certified Financial Statements and Auditors' Report. In preparing this schedule, we grouped the charter school's revenue sources into three major categories (State Revenue Tuition/Grants, Federal Revenue, and Contributions/Private Grants) and incorporated their remaining revenue into the "other" revenue source category. We categorized charter school revenue in this manner for presentation purposes since (a) the certified Financial Statements and Auditors' Report provided to us varied from school to school and (b) the large number and diversity of revenue sources presented within some charter schools' financial statements made it impractical to fully detail. It should be noted that, beginning in fiscal year 2006, DESE began collecting detailed revenue and expense data from charter schools on the Charter School End of Year Financial Returns in order to provide a consistent categorization of such data. As a result, the presentation of data published by DESE for fiscal year 2006 will somewhat differ from the data presented in this table.

Charter School ¹⁸	Total Revenue	State Revenue Tuition/Grants	% of Total Revenue	Federal Revenue	% of Total Revenue	Contributions/ Private Grants	% of Total Revenue	Other	% of Total Revenue
Champion Charter School	\$898,814	\$114,122	12.70%	-	0.00%	\$910	0.10%	\$783,782	87.20%
Christa McAuliffe Regional Charter School	\$3,536,837	\$2,884,656	81.56%	\$63,560	1.80%	\$195,784	5.54%	\$392,837	11.11%
City on a Hill Charter Public School (2)	\$3,877,933	\$2,737,352	70.59%	-	0.00%	\$302,111	7.79%	\$838,470	21.62%
Codman Academy Charter School (2)	\$1,787,256	\$1,195,950	66.92%	-	0.00%	\$112,759	6.31%	\$478,547	26.78%
Community Charter School of Cambridge (2)	\$2,758,590	\$2,298,933	83.34%	-	0.00%	\$91,464	3.32%	\$368,193	13.35%
Community Day Charter School	\$3,993,921	\$3,096,399	77.53%	-	0.00%	\$164,817	4.13%	\$732,705	18.35%
Conservatory Lab Charter School	\$2,655,184	\$1,419,283	53.45%	\$185,996	7.01%	\$797,783	30.05%	\$252,122	9.50%
Edward Brooke Charter School	\$6,804,534	\$2,907,089	42.72%	\$316,267	4.65%	\$282,553	4.15%	\$3,298,625	48.48%
Excel Academy Charter School (2)	\$2,341,439	\$1,788,133	76.37%	-	0.00%	\$253,415	10.82%	\$299,891	12.81%
Four Rivers Charter Public School	\$1,930,288	\$1,395,832	72.31%	-	0.00%	\$177,310	9.19%	\$357,146	18.50%
Foxboro Regional Charter School	\$9,218,192	\$8,522,516	92.45%	\$214,350	2.33%	-	0.00%	\$481,326	5.22%
Francis W. Parker Charter Essential School (2)	\$4,226,689	\$3,370,425	79.74%	-	0.00%	\$373,239	8.83%	\$483,025	11.43%
Health Careers Academy Charter School (2)	\$2,966,313	\$2,447,083	82.50%	-	0.00%	\$85,185	2.87%	\$434,045	14.63%
Hill View Montessori Charter School	\$1,586,221	\$1,227,550	77.39%	\$256,616	16.18%	-	0.00%	\$102,055	6.43%
Holyoke Community Charter School (2)	\$6,787,470	\$6,209,068	91.48%	\$489,433	7.21%	-	0.00%	\$88,969	1.31%
KIPP Academy Lynn charter School (2)	\$2,337,386	\$1,673,288	71.59%	-	0.00%	\$153,442	6.56%	\$510,656	21.85%
Lawrence Family Development Charter School (2)	\$6,300,321	\$5,309,390	84.27%	-	0.00%	\$6,500	0.10%	\$984,431	15.63%
Lowell Community Charter Public School (2)	\$8,192,894	\$7,505,783	91.61%	-	0.00%	\$6,457	0.08%	\$680,654	8.31%
Lowell Middlesex Academy Charter School	\$1,230,926	\$1,202,632	97.70%	\$12,244	0.99%	\$9,050	.74%	\$7,000	0.57%
Marblehead Community Charter School (2)	\$2,501,613	\$2,204,827	88.14%	-	0.00%	-	0.00%	\$296,786	11.86%
Marstons Mills East HM Charter School (2)	\$4,306,994	\$2,746,969	63.78%	-	0.00%	\$2,273	.05%	\$1,557,752	36.17%
Martha's Vineyard Charter School (2)	\$2,867,259	\$2,503,735	87.32%	-	0.00%	\$34,349	1.20%	\$329,175	11.48%
Media and Technology Charter High School (2)	\$6,028,439	\$2,123,195	35.22%	-	0.00%	\$807,441	13.39%	\$3,097,803	51.39%
Murdoch Middle Public Charter School (2)	\$2,829,127	\$2,359,421	83.40%	-	0.00%	\$87,376	3.09%	\$382,330	13.51%
Mystic Valley Regional Charter School	\$11,454,534	\$10,605,239	92.59%	\$260,821	2.28%	-	0.00%	\$588,474	5.14%

Charter School ¹⁸	Total Revenue	State Revenue Tuition/Grants	% of Total Revenue	Federal Revenue	% of Total Revenue	Contributions/ Private Grants	% of Total Revenue	Other	% of Total Revenue
Neighborhood House Charter School (2)	\$6,393,503	\$3,567,115	55.79%	\$103,678	1.62%	\$1,506,416	23.56%	\$1,216,294	19.02%
New Bedford Global Learning Charter School (2)	\$3,426,182	\$2,662,342	77.71%	-	0.00%	\$29,952	.87%	\$733,888	21.42%
New Leadership Charter School (2)	\$5,164,596	\$3,390,200	65.64%	-	0.00%	\$55,003	1.07%	\$1,719,393	33.29%
North Central Charter Essential School (2)	\$3,826,559	\$3,183,015	83.18%	-	0.00%	\$207,200	5.41%	\$436,344	11.40%
Pioneer Valley Performing Arts Charter School (2)	\$4,758,836	\$4,026,809	84.62%	-	0.00%	\$160,913	3.38%	\$571,114	12.00%
Prospect Hill Academy Charter School	\$9,618,794	\$9,260,974	96.28%	-	0.00%	\$96,020	1.00%	\$261,800	2.72%
Rising Tide Charter Public School	\$2,726,641	\$2,433,891	89.26%	\$118,700	4.35%	\$662	.02%	\$173,388	6.36%
River Valley Charter School (2)	\$3,052,490	\$2,676,323	87.68%	\$92,748	3.04%	\$16,041	0.53%	\$267,378	8.76%
Robert M. Hughes Academy Charter School (2)	\$2,038,716	\$1,614,379	79.19%	-	0.00%	\$4,932	0.24%	\$419,405	20.57%
Roxbury Charter High Public School *	\$232,929	\$145,843	62.61%	\$23,770	10.20%	\$63,316	27.18%	-	0.00%
Roxbury Preparatory Charter School (2)	\$3,385,789	\$2,156,289	63.69%	-	0.00%	\$872,187	25.76%	\$357,313	10.55%
SABIS International Charter School	\$12,824,314	\$11,649,312	90.84%	\$809,680	6.31%	-	0.00%	\$365,322	2.85%
Salem Academy Charter School (2)	\$2,136,637	\$1,695,985	79.38%	\$285,816	13.38%	\$49,330	2.31%	\$105,505	4.94%
Seven Hills Charter School	\$8,419,562	\$6,095,817	72.40%	\$1,029,557	12.23%	\$1,478	0.02%	\$1,292,710	15.35%
Smith Leadership Academy Charter Public School	\$2,869,136	\$2,381,837	83.02%	\$243,760	8.50%	\$126,023	4.39%	\$117,516	4.10%
South Shore Charter Public School (2)	\$5,272,234	\$4,313,589	81.82%	-	0.00%	-	0.05%	\$958,645	18.18%
Sturgis Charter Public School	\$3,464,713	\$3,157,338	91.13%	\$49,779	1.44%	\$24,040	0.69%	\$233,556	6.74%
Uphams Corner Charter School (2)	\$2,436,375	\$2,205,783	90.54%	-	0.00%	\$37,526	1.54%	\$193,066	7.92%
Western Mass. Hilltown Coop. Charter School (2)	<u>\$1,614,270</u>	<u>\$1,458,846</u>	90.37%	-	0.00%	<u>\$14,095</u>	0.87%	<u>\$141,329</u>	8.75%
	<u>\$265,190,444</u>	<u>\$211,950,648</u>	79.71%	<u>\$8,707,194</u>	3.27%	<u>\$10,637,533</u>	4.08%	<u>\$33,895,068</u>	12.93%

(1) Other sources of revenue could include such items as private grants, interest income, and food program revenue.

(2) School did not segregate state and federal grant revenues, so they were included in "other" category.

(3) School had not implemented GASB 34

* Financial statements are as of 12/31/05

** Other expenses include such items as insurance, debt service, staff development, technical support expenditures, and travel.

APPENDIX E

Charter School Summary of Significant Operating Expenses Fiscal Year 2006

Charter School ¹⁹	Total Operating Expenses	Salaries and Benefits	% of Operating Expenses	Occupancy / Facilities Costs	% of Operating Expenses	Instructional Supplies and Materials	% of Operating Expenses	Other Expenses**	% of Operating Expenses
Abby Kelley Foster Regional Charter School (2)	\$10,758,958	\$6,890,944	64.05%	\$1,276,143	11.86%	\$184,264	1.71%	\$2,407,607	22.38%
Academy of the Pacific Rim Charter School	\$4,774,620	\$2,737,967	57.34%	\$637,428	13.35%	\$98,905	2.07%	\$1,300,320	27.23%
Academy of Strategic Learning Charter School	\$624,535	\$479,556	76.79%	\$40,552	6.49%	\$5,175	0.83%	\$99,252	15.89%
Advanced Math and Science Academy Charter School	\$2,984,654	\$1,673,152	56.06%	\$596,055	19.97%	\$253,633	8.50%	\$461,814	15.47%
Atlantis Charter School	\$6,846,527	\$4,722,221	68.97%	\$677,477	9.90%	\$188,411	2.75%	\$1,258,418	18.38%
Barnstable Horace Mann Charter School	\$8,216,132	\$7,580,601	92.26%	\$44,095	0.54%	\$71,798	0.87%	\$519,638	6.32%
Benjamin Banneker Charter School	\$5,040,560	\$3,622,737	71.87%	\$643,748	12.77%	\$161,476	3.20%	\$612,599	12.15%
Benjamin Franklin Classical Charter School (2)	\$3,283,763	\$2,450,628	74.63%	\$372,356	11.34%	\$98,176	2.99%	\$362,603	11.04%

¹⁹ We prepared the summary of operating expenses from each charter school's fiscal year 2006 certified Financial Statements and Auditors' Report. In preparing this schedule, we grouped the charter school's related operating expense into three major expense categories (salaries and benefits, occupancy and facilities, and instructional supplies and materials) and incorporated the remaining expenses into the "other" expense category. We categorized the expenses in this manner for presentation purposes since (a) the certified Financial Statements and Auditors' Report provided to us varied from school to school and (b) the large number of expense categories presented within some school's financial statements made it impractical to fully detail. It should be noted that, beginning in fiscal year 2006, DESE began collecting detailed revenue and expense data from charter schools on the Charter School End of Year Financial Returns in order to provide a consistent categorization of such data. As a result, the presentation of data published by DESE for fiscal year 2006 will somewhat differ from the data presented in this table.

Charter School ¹⁹	Total Operating Expenses	Salaries and Benefits	% of Operating Expenses	Occupancy / Facilities Costs	% of Operating Expenses	Instructional Supplies and Materials	% of Operating Expenses	Other Expenses**	% of Operating Expenses
Berkshire Arts and Technology Charter School	\$2,120,820	\$1,128,969	53.23%	\$260,577	12.29%	\$64,884	3.06%	\$666,390	31.42%
Boston Collegiate Charter School	\$4,931,891	\$2,756,086	55.88%	\$628,982	12.75%	\$37,786	0.77%	\$1,509,037	30.6%
Boston Day and Evening Academy Charter School	\$2,271,200	\$2,191,449	96.49%	\$31,614	1.39%	\$460	0.02%	\$47,677	2.10%
Boston Preparatory Charter Public School	\$1,895,728	\$1,126,460	59.42%	\$239,517	12.63%	-	0.00%	\$529,751	27.94%
Boston Renaissance Charter Public School	\$16,492,564	\$10,909,008	66.15%	\$1,675,569	10.16%	\$44,335	0.27%	\$3,863,652	23.43%
Cape Cod Lighthouse Charter School (3)	\$2,307,511	\$1,476,332	63.98%	\$382,182	16.56%	\$54,417	2.36%	\$394,580	17.10%
Champion Charter School	\$841,323	\$688,924	81.89%	\$539	0.06%	\$30,844	3.67%	\$121,016	14.38%
Christa McAuliffe Regional Charter School	\$3,969,625	\$2,374,388	59.81%	\$837,183	21.09%	\$26,771	0.67%	\$731,283	18.42%
City on a Hill Charter Public School	\$3,200,076	\$1,979,070	61.84%	\$359,416	11.23%	51,776	1.62%	\$809,814	25.31%
Codman Academy Charter Public School	\$1,704,803	\$960,122	56.32%	\$114,002	6.69%	\$183,934	10.79%	\$446,745	26.21%
Community Charter School of Cambridge	\$2,144,810	\$1,267,816	59.11%	\$494,394	23.05%	\$101,087	4.71%	\$281,513	13.13%
Community Day Charter School (N/P)	\$3,964,741	\$2,660,642	67.11%	\$320,028	8.07%	\$153,412	3.87%	\$830,659	20.95%
Conservatory Lab Charter School (3)	\$2,645,983	\$1,529,765	57.81%	\$388,437	14.68%	\$34,342	1.30%	\$693,439	26.21%
Edward Brooke Charter School	\$4,449,087	\$2,221,222	49.93%	\$328,270	7.38%	\$141,899	3.19%	1,757,696	39.51%
Excel Academy Charter School	\$2,110,254	1,173,113	55.59%	\$324,440	15.37%	\$123,778	5.87%	488,923	23.17%

Charter School ¹⁹	Total Operating Expenses	Salaries and Benefits	% of Operating Expenses	Occupancy / Facilities Costs	% of Operating Expenses	Instructional Supplies and Materials	% of Operating Expenses	Other Expenses**	% of Operating Expenses
Four Rivers Charter Public School	\$1,700,630	925,451	54.42%	\$385,926	22.69%	-	0.00%	389,253	22.89%
Foxborough Regional Charter School	\$8,459,659	\$5,073,640	59.97%	\$1,107,329	13.09%	\$758,667	8.97%	\$1,520,023	17.97%
Francis W. Parker Charter School	\$3,698,367	\$2,893,805	78.25%	\$123,705	3.34%	\$31,994	0.87%	\$648,863	17.54%
Health Careers Academy Charter School	\$2,916,233	\$2,371,887	81.33%	\$85,000	2.91%	\$27,292	0.94%	\$432,054	14.82%
Hill View Montessori Charter School	\$1,417,335	\$978,434	69.03%	\$152,257	10.74%	\$55,490	3.92%	\$231,154	16.31%
Holyoke Community Charter School	\$5,884,996	\$2,573,346	43.73%	\$405,172	6.88%	\$541,352	9.20%	\$2,365,126	40.19%
KIPP Academy Lynn Charter School	\$2,031,222	\$1,144,382	56.34%	\$242,147	11.92%	\$118,793	5.85%	\$525,900	25.89%
Lawrence Family Development Charter School (2)	\$6,127,359	\$4,086,583	66.69%	\$720,120	11.75%	\$240,615	3.93%	\$1,080,041	17.63%
Lowell Community Charter Public School (2)	\$7,956,821	\$5,503,729	69.17%	\$973,355	12.23%	\$460,787	5.79%	\$1,018,950	12.81%
Lowell Middlesex Academy Charter School	\$1,111,893	\$714,316	64.24%	\$164,100	14.76%	-	0.00%	\$233,477	21.00%
Marblehead Community Charter School	\$2,421,600	\$1,706,721	70.48%	\$395,200	16.32%	\$79,467	3.28%	240,212	9.92%
Marstons Mills East HM Charter Public School (2), (3)	\$4,301,778	\$2,939,011	68.32%	\$121,567	2.83%	\$9,622	0.22%	1,231,578	28.63%
Martha's Vineyard Charter School	\$2,866,870	\$1,788,101	62.37%	\$277,336	9.67%	\$484,454	16.90%	316,979	11.06%
Media and Technology Charter High School	\$4,902,208	\$2,103,855	42.92%	\$863,955	17.62%	\$92,901	1.90%	1,841,497	37.56%

Charter School ¹⁹	Total Operating Expenses	Salaries and Benefits	% of Operating Expenses	Occupancy / Facilities Costs	% of Operating Expenses	Instructional Supplies and Materials	% of Operating Expenses	Other Expenses**	% of Operating Expenses
Murdoch Middle Public Charter School	\$2,521,116	\$1,767,520	70.11%	\$416,555	16.52%	\$52,295	2.07%	\$284,746	11.29%
Mystic Valley Regional Charter School	\$9,452,355	\$5,461,193	57.78%	\$1,335,985	14.13%	\$340,854	3.61%	\$2,314,323	24.48%
Neighborhood House Charter School	\$5,188,660	\$3,056,458	58.91%	\$760,495	14.66%	\$81,795	1.58%	\$1,289,912	24.86%
New Bedford Global Learning Charter School	\$3,052,526	\$1,991,782	65.25%	\$320,791	10.51%	\$123,958	4.06%	\$615,995	20.18%
New Leadership Charter School (2), (3)	\$5,504,681	\$2,959,961	53.77%	\$917,093	16.66%	-	0.00%	\$1,627,627	29.57%
North Central Charter Essential School	\$4,124,613	\$2,579,790	62.55%	\$723,169	17.53%	\$494,516	11.99%	\$327,138	7.93%
Pioneer Valley Performing Arts Charter School	\$4,222,945	\$2,577,861	61.04%	\$876,328	20.75%	\$279,142	6.61%	\$489,614	11.59%
Prospect Hill Academy Charter School	\$9,009,327	\$8,126,016	90.20%	865,630	9.61%	\$16,712	0.19%	\$969	0.01%
Rising Tide Charter School	\$2,398,839	\$1,653,981	68.95%	329,213	13.72%	\$47,899	2.00%	\$367,746	15.33%
River Valley Charter School	\$3,137,262	\$1,980,241	63.12%	536,659	17.11%	\$49,905	1.59%	\$570,457	18.18%
Robert M. Hughes Academy Charter School	\$2,001,170	\$1,255,549	62.74%	157,990	7.89%	\$7,260	0.36%	\$580,371	29.00%
Roxbury Charter High Public School*	\$218,225	\$113,595	52.05%	72,568	33.25%	\$1,435	0.66%	\$30,627	14.03%
Roxbury Preparatory Charter School	\$3,162,514	\$1,845,612	58.36%	267,541	8.46%	\$326,658	10.33%	\$722,703	22.85%
SABIS International Charter School (2)	\$12,632,013	\$5,977,343	47.32%	2,915,517	23.08%	\$781,691	6.19%	\$2,957,462	23.41%
Salem Academy Charter School	\$2,057,927	\$1,181,935	57.43%	\$306,113	14.87%	76,006	3.69%	493,873	24.00%

Charter School ¹⁹	Total Operating Expenses	Salaries and Benefits	% of Operating Expenses	Occupancy / Facilities Costs	% of Operating Expenses	Instructional Supplies and Materials	% of Operating Expenses	Other Expenses**	% of Operating Expenses
Seven Hills Charter School	\$7,681,639	\$4,603,881	59.93%	\$990,698	12.90%	-	0.00%	2,087,060	27.17%
Smith Leadership Academy Charter Public School	\$2,775,011	\$1,511,389	54.46%	\$394,662	14.22%	-	0.00%	868,960	31.31%
South Shore Charter Public School (2)	\$4,936,547	\$3,038,373	61.55%	\$549,363	11.13%	149,108	3.02%	1,199,703	24.30%
Sturgis Charter Public School	\$3,316,600	\$2,352,154	70.92%	\$333,128	10.04%	36,297	1.09%	595,021	17.94%
Uphams Corner Charter School	\$2,530,831	\$1,438,914	56.86%	\$542,631	21.44%	237,652	9.39%	311,634	12.31%
Western Mass. Hilltown Cooperative Charter School	<u>\$1,538,505</u>	<u>\$1,157,224</u>	75.22%	<u>\$210,040</u>	13.65%	-	0.00%	<u>171,241</u>	11.13%
	<u>\$244,840,442</u>	<u>\$156,035,205</u>	63.72%	<u>\$30,512,342</u>	12.44%	<u>\$8,116,180</u>	3.31%	<u>\$50,176,715</u>	20.53%

(1) Other sources of revenue could include such items as private grants, interest income, and food program revenue.

(2) School did not segregate state and federal grant revenues, so they were included in "other" category.

(3) School had not implemented GASB 34

* Financial statements are as of 12/31/05

** Other expenses include such items as insurance, debt service, staff development, technical support expenditures, and travel.

APPENDIX F

Glossary of Terms

Asset: Anything owned by an individual or a business that has commercial or exchange value. Assets may consist of specific property or claims against others, in contrast to obligations due others.

Capital: In economics, capital can mean factories, machines, and other man-made inputs into a production process. In finance, capital is money and other property of a corporation or other enterprise used in transacting the business.

Capital Asset: A long-term asset that is not purchased or sold in the normal course of business. Generally, it includes fixed assets (e.g., land, buildings, furniture, equipment, fixtures and furniture).

Capital Budget: The estimated amount planned to be expended for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods. The capital budget, however, is limited to the expenditures that will be made within the fiscal year comparable to the related operating budgets.

Capital Employed: The value of the assets that contribute to a company's ability to generate revenue (i.e., fixed assets plus current assets minus current liabilities).

Capital Expenditure: The amount used during a particular period to acquire or improve long-term assets such as property, plant, or equipment.

Current Assets: Those assets of a company that are reasonably expected to be realized in cash, sold, or consumed during the normal operating cycle of the business (usually one year). Such assets include cash, accounts receivable and money due usually within one year, short-term investments, US government bonds, inventories, and prepaid expenses.

Current Liabilities: Liabilities to be paid within one year of the balance sheet date.

Current Ratio: A comparison of current assets to current liabilities is a commonly used measure of short-run solvency (i.e., the immediate ability of a firm to pay its current debts as they come due).

Current Ratio is particularly important to companies seeking to borrow money or get credit from their suppliers. Potential creditors use this ratio to measure a company's liquidity or ability to pay off short-term debts. Although acceptable ratios may vary from industry to industry, below 1.00 is not atypical for high-quality companies with easy access to capital markets to finance unexpected cash requirements. Smaller companies, however, should have higher current ratios to meet unexpected cash requirements. The Current Ratio rule of thumb for small companies is 2:1, indicating the need for a level of safety in the ability to cover unforeseen cash needs from current assets. Current Ratio is best compared to the industry.

Debt to Equity: A measurement of the risk of a firm's capital structure in terms of amounts of capital contributed by creditors and that contributed by owners. It expresses the protection provided by owners for the creditors. In addition, a low Debt-to-Equity ratio implies ability to borrow. While using debt implies risk (required interest payments must be paid), it also introduces the potential for increased benefits to the firm's owners. When debt is used successfully (operating earnings exceeding interest charges) the returns to shareholders are magnified through financial leverage. Depending on the industry, different ratios are acceptable. The company should be compared to the industry, but generally a 3:1 ratio is a general benchmark. Should a company have debt-to-equity ratio that exceeds this number; it will be a major impediment to obtaining additional financing.

Fixed Assets: Those assets of a permanent nature required for the normal conduct of a business and which will not normally be converted into cash during the ensuing fiscal period. For example, furniture, fixtures, land, and buildings are all fixed assets. However, accounts receivable and inventory are not.

Liability: A loan, expense, or any other form of claim on the assets of an entity that must be paid or otherwise honored by that entity.

Liquidity: A company's ability to meet current obligations with cash or other assets that can be quickly converted to cash.

Net Assets: The difference between total assets and total liabilities, including noncapitalized long-term liabilities. Net assets, in some instances, are subdivided into unrestricted and restricted net assets. In government accounting, assets with no external restrictions as to use or purpose are

classified as unrestricted net assets. Unrestricted net assets can be employed for any purpose designated by an entity's governing board. Conversely, funds whose use is restricted by outside parties until some event occurs are classified as restricted net assets. For example, a charter school may be required by lenders to hold a portion of its net asset balance in a sinking fund, debt service fund, or stabilization fund. In other instances, a governing board may elect to reserve a portion of the school's net asset balance for future building repairs or capitalization needs.

Net Income: The difference between a business's total revenue and its total expenses. This caption and amount is usually found at the bottom of a company's Profit and Loss statement. Same as Net Profit.

Net Operating Loss: Experienced by a business when business deductions exceed business income for the fiscal year. For income tax purposes, a net operating loss can be used to offset income in a prior year, or a taxpayer can elect to forego the carry back and carry the net operating loss forward.

Net Profit: The company's total earnings, reflecting revenues adjusted for costs of doing business, depreciation, interest, taxes, and other expenses. Same as Net Income.

Non-Current Assets: Includes PPE (property, plant, and equipment) as opposed to current assets, which includes cash, cash equivalents (e.g. securities, short-term notes), inventory, and accounts receivable.

Operating Expenditures: The amount used during a particular period directly in support of day-to-day operations such as wages, maintenance, office supplies, etc.

Profit Margin: Net income divided by sales or revenue, usually expressed as a ratio. This ratio measures the ability of an entity to convert its as net income.

Return on Assets: Shows the after tax earnings of assets. Return on assets is an indicator of how profitable a company is. Use this ratio annually to compare a business' performance to the industry norms. The higher the ratio, the greater the return on assets. However, this has to be balanced against such factors as risk, sustainability, and reinvestment in the business through development costs.

Return on Equity (ROE): Measures the overall efficiency of the firm in managing its total investments in assets and in generating a return to stockholders. It is the primary measure of how well management is running a company. All things being equal, the higher a company's ROE, the better the company.

Revenue: The inflows of assets from selling goods and providing services to customers, including the reduction of liabilities from selling goods and providing services to customers.

Total Assets: The total of all assets, both current and fixed.

APPENDIX G**Charter Schools with Component Units,
Fiscal Year 2006**

Academy of the Pacific Rim Charter School
Academy of Strategic Learning Charter School
Advanced Math and Science Learning Charter School
Atlantis Charter School
Benjamin Franklin Classical Charter School
Berkshire Arts and Technology Charter School
Boston Collegiate Charter School
Boston Preparatory Charter Public School
Boston Renaissance Charter School
Champion Charter School
Christa McAuliffe Regional Charter School
City on a Hill Charter Public School
Codman Academy Charter Public School
Conservatory Lab Charter School
Edward Brooke Charter School
Excel Academy Charter School
Four Rivers Charter Public School
Hill View Montessori Charter School
Media and Technology Charter High School
Murdoch Middle Public Charter School
Neighborhood House Charter School
North Central Charter Essential School
Pioneer Valley Performing Arts Charter School
River Valley Charter School
Roxbury Charter High Public School
Roxbury Preparatory Charter School
Salem Academy Charter School
Seven Hills Charter School
Smith Leadership Academy Charter School
South Shore Charter Public School
Sturgis Charter Public School
Uphams Corner Charter School

APPENDIX H

Recommendations of the Massachusetts Association of School Superintendents

In March 2005, the Massachusetts Association of School Superintendents, Charter School Task Force (MASS Task Force) issued a report entitled, *Beyond Discord: Resolving The Tension Between Charter And Public Schools*. Within its report, the MASS Task Force recommended certain changes in charter school financing and financial accountability, which addressed the following topics.

- Exclusion of retired teachers' health insurance from net school spending
- Capital costs for charter schools
- Financial responsibility for charter tuition
- Financial accountability
- Financial implications of charter non-renewal

While the MASS Task Force's recommendations represent the policy recommendations of one particular stakeholder group, we included them within Appendix H because, if they were mandated by the Legislature, the financial conditions of charter schools, which we have described in this report, as well as public schools, could be significantly impacted. Moreover, although DESE is not charged with implementing these changes, and our review was not a review of DESE's administration of charter schools within the Commonwealth, we also included DESE's position on this matter. We also included, at the end of Appendix H, the Massachusetts Charter Public School Association (MCPSA) response to the financing and financial accountability changes recommended by the MASS Task Force.

DESE commented that implementing some of the MASS Task Force's recommendations would require an amendment to the charter school statute; other recommendations were fully or partially addressed in the statutory formula for charter school tuition as amended in September 2004 as part of the passage of Chapter 352, Section 31, of the Acts of 2004; and certain issues raised by the Task Force were addressed by existing charter school requirements. DESE also indicated that one

recommendation was not implemented because doing so would not result in significant improvements in the affected area.

Detailed below are the MASS Task Force's recommended changes to charter school financing and financial accountability, DESE's responses to these recommendations, and additional information that we gathered about these recommendations during the audit.

1. Retired Teachers' Health Insurance

MASS Task Force Recommendation: Retired teachers' health insurance should be deducted from net school spending in total prior to calculating the district's spending above foundation.

DESE Response: This recommendation would require an amendment to the charter school statute, Chapter 71, Section 89, of the General Laws.

2. Capital Costs for Charter Schools

MASS Task Force Recommendation: Capital costs for charter schools should be drawn from a state account for that specific purpose. Charter school capital costs should not be included in the tuition costs for charter students drawn from Chapter 70 funds.

DESE Response: The provision is included in part in the statutory formula for charter school tuition as amended in September 2004 as part of the passage of Chapter 352, Section 31, of the Acts of 2004. A capital cost component has been added to the tuition calculation for charter schools, but the state reimburses districts for the full cost of this component (subject to appropriation).

MASS Task Force Recommendation: Capital costs for charter schools should be expenditure driven, not assumed in a fixed dollar amount. There should be established an accountability system that assures that capital costs are related to capital expenditures and an oversight system to determine the appropriateness and ownership of capital assets.

DESE Response: This recommendation would require an amendment to the charter school statute, Chapter 71, Section 89, of the General Laws.

3. Financial Responsibility for Charter Tuition

MASS Task Force Recommendation: Public school districts would be charged a maximum tuition rate of either \$5,000 or 75% of per pupil spending of the sending district, whichever is less for each student attending a charter school. Students attending the charter school would be included in the foundation enrollment figures of the sending district, as school choice students are now.

DESE Response: The charter school statute includes this recommendation in part. Students attending a charter school are included (and have always been included) in the foundation enrollment of the sending district. However, establishing a maximum tuition rate would require an amendment to the charter school statute, Chapter 71, Section 89, of the General Laws.

MASS Task Force Recommendation: The budget allocations set for the charter school would be based on the foundation budget and reflect the individual type of program (e.g., elementary, middle, high school, etc.) and the needs of the student, (e.g., low-income, special education, etc.) as reflected in the foundation budget. The foundation budget should be adjusted to exclude costs not incurred by the charter school (e.g., out-of-district special education tuitions, retired teachers pensions, etc.).

DESE Response: This provision is already included in the statutory formula for charter tuition as amended in September 2004 as part of the passage of Chapter 352, Section 31, of the Acts of 2004.

MASS Task Force Recommendation: The difference between the contribution of the sending school district and the foundation budget for the charter school would be funded through a line item in the state budget.

DESE Response: The state subsidizes a portion of charter school tuition (line item 7061-9010 in the state budget).

MASS Task Force Recommendation: Private, parochial, and home school students who did not attend a public school in the year prior to their enrollment in the charter school would be funded 100% by the state for their first year of enrollment in the charter school.

DESE Response: This provision is already included in the statutory formula for charter school tuition (Chapter 71, Section 89(ii), of the General Laws).

4. **Financial Accountability**

MASS Task Force Recommendation: All charter schools will be required to complete the standard End of Year Financial Report consistent with public school districts.

DESE Response: Beginning with fiscal year 2006, as a part of the revision of audit submission requirements, charter schools are now required to complete a Charter School End of Year Financial Report that was developed to align with the standard district End of Year Pupil and Financial Report, while taking into account the different accounting standards that charter schools are subject to.

OSA Supplemental Information: During our follow-up review, we analyzed the End of Year Financial Report that DESE developed for charter schools. We found that the document uses accounts for general and special education that are comparable to the ones used by public school districts for reporting revenues and expenses. As a result, financial comparisons are now possible between public school systems and charter schools.

MASS Task Force Recommendation: Charter schools will be required to comply with the Uniform Procurement Act.

DESE Response: Although charter schools are not required by law to comply with the Uniform Procurement Act (Chapter 30B of the General Laws), they are required to follow sound business practices in their procurement activities. DESE has issued a set of procurement guidelines for charter schools that references Chapter 30B and other sources of good procurement policies.

OSA Supplemental Information: During our follow-up review, we found that in June 2003, DESE also issued Charter Schools Technical Advisory 03-1. The purpose of this document is to interpret, clarify, and provide guidance on the application of the charter school statute (Chapter 71, Section 89, of the General Laws) and the charter school regulations (603 CMR 1.00) to Horace Mann charter schools. When addressing procurement requirements that Horace Mann charter schools must follow when procuring goods and services, Technical Advisory 03-1 states, "Because Horace Mann charter school employees are, for some purposes, employees of municipal entities, and because the schools are funded directly by municipalities, they are by definition subject to the procurement requirements of G.L. c. 30B, the Uniform Procurement Act."

In addition, during our current review, we contacted each charter school and found that most of the 58 charter schools that provided us with financial information for fiscal year 2006 had documented procurement policies as part of their internal control policies. Specifically, 35 charter schools followed the procurement practices outlined in DESE's Fiscal Policies and Procedures Guide for Charter Schools, 11 charter schools followed the requirements of Chapter 30B when procuring goods and services, 10 charter schools included internally developed procurement policies as part of their overall business practices, one charter school was no longer in operation, and one charter school (the Marblehead Charter School) did not respond to our request.

MASS Task Force Recommendation: Assessments from cities and towns for charter school enrollment will be based on existing enrollment and formal registrations as of April 1 of the prior school year and be adjusted to reflect actual enrollment based on average daily enrollment for the year.

DESE Response: Under current law, initial tuition estimates are based on reports of projected enrollment submitted by each charter school as of March 15 of the previous year. Projected enrollment includes both returning students and new students who have applied and been accepted for admission. Tuition calculations are adjusted during the school year to reflect the actual enrollment levels.

MASS Task Force Recommendation: Waiting lists for enrollment in charter schools must be supported by a standardized "intent to register" form submitted by parents to the charter school within the prior 12 months.

DESE Response: An "intent to register" form would not be legally binding on a parent or guardian, so we do not think that it would significantly improve the accuracy of the reported number of students on waiting lists.

5. **Financial Implications of Charter Non-Renewal**

Recommendation: There should be transitional financial assistance provided to school districts significantly impacted by the closure or non-renewal of a charter school and the liquidated assets of a closed charter school should be returned to those school districts that provided tuitions to the charter school.

Response: This recommendation would require an amendment to the charter school statute, Chapter 71, Section 89, of the General Laws.

In addition, in May 2005 the Massachusetts Charter Public School Association (MCPSA) issued a response to the MASS Task Force report. Regarding funding reforms, MCPSA (a) supported the September 2004 changes to the tuition formula and affirmed its belief that that these changes addressed many of the MASS Task Force's concerns about cost differentials for various types of students, (b) indicated that it was willing to continue discussions around capital costs, (c) disagreed that charter schools add to the state's cost of public education, and (d) opposed the MASS Task Force's recommendation that charter school tuition be based upon school choice and the Metropolitan Council for Educational Opportunities (METCO) models.

Regarding charter school financial accountability, MCPSA stated the MASS Task Force report makes it sound like charter schools are not accountable for their spending when in fact there is accountability at every level.