

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Financial Statements and Supplemental Schedules  
Together with Reports of Independent Public Accountants**

**For the Years Ended June 30, 2016 and 2015**



**S B & COMPANY, LLC**  
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**JUNE 30, 2016 AND 2015**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

The Board of Trustees  
Howard University Public Charter Middle  
School of Mathematics and Science

### **Report on the Financial Statements**

We have audited the accompanying statement of financial position of the Howard University Public Charter Middle School of Mathematics and Science (the School) as of June 30, 2016, and the related statements of activities and change in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the auditing standards established pursuant to the District of Columbia School Reform Act, Public law No. 104-134, 110 Stat. 1321-121, 2204(c)(11)(B)(ix)(1996); D.C. Official Code 38-1802.04(ii)(B)(2001, as amended). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

***Opinion***

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2016, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

The financial statements of the School as of and for the year ended June 30, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on December 23, 2015.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental schedule of functional expenses for the year ended June 30, 2016, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2017, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Washington, DC  
March 8, 2017

*SB & Company, LLC*

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Statements of Financial Position  
As of June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash	\$ 934,684	\$ 858,739
Investments	901,123	102,272
Federal grants receivable	25,573	267,657
Other grants and contributions receivable	73,598	133,902
Prepaid expenses	8,696	15,359
Total current assets	<u>1,943,674</u>	<u>1,377,929</u>
Property and equipment, net	305,946	312,739
<b>Total Assets</b>	<u><u>\$ 2,249,620</u></u>	<u><u>\$ 1,690,668</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 112,121	\$ 81,896
Accrued expenses	414,451	242,923
Deferred revenue	35,302	-
<b>Total Liabilities</b>	<u>561,874</u>	<u>324,819</u>
<b>Net Assets</b>		
Unrestricted	1,687,746	1,365,849
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 2,249,620</u></u>	<u><u>\$ 1,690,668</u></u>

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

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Statements of Activities and Change in Net Assets  
For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>UNRESTRICTED NET ASSET</b>		
<b>Revenue and Support:</b>		
Per pupil allocation	\$ 3,344,519	\$ 3,620,734
DC facilities allowance	830,984	903,168
Federal entitlements	133,760	267,657
Federal grants	45,219	47,513
Grants and contributions	1,001,661	1,066,729
Other	27,413	58,475
<b>Total Revenue</b>	<u>5,383,556</u>	<u>5,964,276</u>
Donated facilities	1,009,000	1,009,000
<b>Total Revenue and Support</b>	<u>6,392,556</u>	<u>6,973,276</u>
 <b>Expenses</b>		
Program Services	5,337,790	5,924,076
Supporting Services:		
General and administrative	450,997	501,933
Fundraising	281,872	313,705
Total Supporting Services	<u>732,869</u>	<u>815,638</u>
<b>Total Expenses</b>	<u>6,070,659</u>	<u>6,739,714</u>
 Change in net assets	321,897	233,562
Net assets, beginning of year	1,365,849	1,132,287
<b>Net Assets, End of Year</b>	<u>\$ 1,687,746</u>	<u>\$ 1,365,849</u>

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

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Statements of Cash Flows  
For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 321,897	\$ 233,562
Adjustments to reconcile change in net assets to net cash from operating activities:		
Reinvestment of investment earnings	(1,206)	-
Depreciation	130,985	159,751
Effect of changes in non-cash, operating assets and liabilities:		
Federal grants receivable	242,084	(34,065)
Other grants and contributions receivable	60,304	44,342
Prepaid expenses	6,663	29,991
Accounts payable	30,225	1,849
Accrued expenses	171,528	(135,906)
Deferred revenue	35,302	(207,629)
<b>Net Cash Provided by Operating Activities</b>	<u>997,782</u>	<u>91,895</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(900,000)	-
Proceeds from sale of investments	102,355	597,728
Purchase of property and equipment	(124,192)	(141,531)
<b>Net Cash (Used) Provided by Investing Activities</b>	<u>(921,837)</u>	<u>456,197</u>
Net change in cash	75,945	548,092
Cash, beginning of year	858,739	310,647
<b>Cash, End of Year</b>	<u>\$ 934,684</u>	<u>\$ 858,739</u>

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

# **HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE SCHOOL OF MATHEMATICS AND SCIENCE**

## **Notes to the Financial Statements June 30, 2016 and 2015**

### **1. ORGANIZATION AND PROGRAM**

Howard University Public Charter Middle School of Mathematics and Science (the School) is a District of Columbia (the District) not-for-profit entity incorporated in December 2003. The School provides an academic model designed to help prepare middle school students for college and careers in math, science, and engineering. The School is a technology-enabled school designed specifically for middle school students with the benefit of being located on an elite college campus.

In July 2005, the School entered into a contract with the District of Columbia Board of Education granting the School a charter for the establishment of a public charter school in Washington, DC. The charter shall continue for a term of 15 years unless renewed, revoked, or terminated by the District of Columbia Board of Education for violations of applicable laws and conditions, terms and procedures set forth in the charter. The School's current charter provides for enrollment of up to 500 students in grades six through eight. Under the provisions of the contract, the District of Columbia Board of Education is to make annual payments to the School for services provided to the students based on the number of students attending the School each year. The School served 266 and 296 students during fiscal years 2016 and 2015, respectively.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Accounting**

The accompanying financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **Investments**

Investments are recorded at fair market value. Investment income, including unrealized gains or losses, is reported through the change in net assets as unrestricted unless restricted by the donor or by law.

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair Value Measurements**

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under accounting principles accepted in the United States of America are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial instruments consist of cash, investments, accounts receivable, accounts payable, and debt. The carrying value of the School's financial instruments in the accompanying statements of financial position approximated their respective estimated fair values as of June 30, 2016 and 2015. Fair values are estimated based on current market rates, prices or liquidation value.

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Federal Grants and Contributions Receivable**

Federal grants and contributions receivable represent revenue earned, but not collected as of the end of the fiscal year.

The School provides an allowance for doubtful accounts equal to the estimated uncollectible accounts. The School's estimate is based on historical collection experience and a review of the current status of specific accounts and grants receivable. There was no allowance for the years ended June 30, 2016 and 2015, as management believes that these amounts are fully collectible.

**Property and Equipment**

Property and equipment valued in excess of \$1,000 are capitalized and recorded at cost, if purchased, or estimated fair value at the date of gift, if donated. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets ranging from three to five years. Equipment under capital leases is amortized using the straight-line method over the lesser of the estimated useful lives of the equipment or the lives of the leases. Repairs, maintenance and minor replacements are expensed as incurred while major replacements and improvements are capitalized.

**Net Assets**

Unrestricted net assets are assets and contributions that are not restricted by donors or for which restrictions have expired.

Temporarily restricted net assets are those whose uses by the School have been limited by donors primarily for a specific time period or purpose. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as unrestricted net assets. There were no temporarily restricted net assets as of June 30, 2016 and 2015.

Permanently restricted net assets are those that are restricted by donors to be maintained by the School in perpetuity. There were no permanently restricted net assets as of June 30, 2016 and 2015.

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Restricted and Unrestricted Revenue and Support**

Contributions received are recorded when pledged and classified as unrestricted, temporarily or permanently restricted support, depending on the existence and/or nature of any donor imposed restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and change in net assets as net assets released from restrictions.

**Revenue Recognition**

The School receives a student allocation from the District of Columbia as well as Federal funding to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding, and a facilities allotment. The School recognizes this funding in the year in which the school term is conducted. Funding received in advance of the school term is recorded as deferred revenue in the accompanying statements of financial position. Revenue from other government sources are recognized as earned.

**Donated Facilities**

The School is located on the campus of Howard University, a related tax-exempt organization. Total in kind contributions from Howard University for the years ended June 30, 2016 and 2015, were \$1,009,000, for the School's free use of the facility. Management estimated the value of the in-kind services based on the market rate for the value of the facility provided, which is recorded as donated facilities and rent expense in the accompanying financial statements.

**Advertising Costs**

Advertising costs are expensed when incurred. The costs of advertising are expensed when the services are received. Advertising expense for the years ended June 30, 2016 and 2015, was approximately \$16,000 and \$11,000, respectively.

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Functional Expense Allocation**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the School.

**Income Taxes**

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable District of Columbia income tax laws.

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The School performed an evaluation of uncertain tax positions for the year ended June 30, 2016, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. For the year ended June 30, 2016, the statute of limitations for fiscal years 2013 through 2016 remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the School files tax returns. It is the School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

**Reclassification**

Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation. These reclassifications had no effect on previously reported results of operations or net assets.

**Recent Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, that provides updated guidance on the reporting model for not-for-profits and the statement of cash flows. These standards are effective for periods beginning after December 15, 2017 and December 15, 2018, respectively. Management is evaluating the effects of these pronouncements on the financial statements, and will implement these pronouncements by their effective dates. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Subsequent Events**

The School's management evaluated the accompanying financial statements for subsequent events and transactions through March 8, 2017, the date the financial statements were available for issue, and has determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

**3. INVESTMENTS**

The following is a description of the valuation methodology used for investments measured at fair value.

Certificates of Deposit: Valued at the cost plus accrued interest, where cost approximates the fair value.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There have been no changes in the methodology used as of June 30, 2016.

The following tables set forth by level, the fair value hierarchy of investments, at fair value, as of June 30, 2016 and 2015:

	<b>June 30, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Certificates of Deposit	<u>\$ 901,123</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 901,123</u>
	<b>June 30, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Certificates of Deposit	<u>\$ 102,272</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,272</u>

Gains and losses on investments are reported in the accompanying statements of activities and change in net assets in other income.

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**4. PROPERTY AND EQUIPMENT**

As of June 30, 2016 and 2015, property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>	<u>Useful Life</u>
Equipment and software	\$ 1,167,181	\$ 1,047,440	3 years
Leasehold improvements	<u>64,374</u>	<u>59,923</u>	3 - 5 years
<b>Total</b>	<b>1,231,555</b>	1,107,363	
Less: accumulated depreciation	<u>925,609</u>	794,624	
<b>Property and equipment, net</b>	<b><u>\$ 305,946</u></b>	<b><u>\$ 312,739</u></b>	

Depreciation expense was \$130,985 and \$159,751, for the years ended June 30, 2016 and 2015, respectively.

**5. COMMITMENTS AND CONTINGENCIES**

**Grants**

The School receives financial assistance from Federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's management believes such disallowance, if any, would be immaterial.

The School receives a substantial portion of its revenue from the Government of the District of Columbia. If a significant reduction in this revenue should occur, it may have an effect on the School's programs. During the years ended June 30, 2016 and 2015, the School earned revenue of \$4,354,482 and \$4,839,072, respectively, from the Government of the District of Columbia, which represented 81% of the total revenue and support. These amounts are reflected as per pupil allocation, DC facilities allowance, Federal grants, and Federal entitlements in the accompanying statements of activities and change in net assets.

**Operating Leases**

As disclosed in Note 2, the School operates from premises leased from Howard University at no cost. Beginning August 2007, this lease was renegotiated to renew automatically each year for ten years. The School recorded \$1,009,000, as an in-kind contribution and rental expense in the statements of activities and change in net assets for the fiscal years ended June 30, 2016 and 2015, based upon the University's estimate of the fair value of a lease for the premises.

Included in office equipment rental and maintenance expenses are assets leased under an agreement that has been classified as an operating lease. The minimum future rentals, excluding applicable sales and use taxes, under the non-cancelable operating lease as of June 30, 2016 was \$6,106.

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**6. RETIREMENT PLAN**

All employees having attained the age of eighteen and have accumulated 1,000 hours within the plan year, are eligible to participate in the School's retirement plan (the Plan). The Plan is a tax-deferred annuity plan under Section 401(k) of the Code and is administered by a retirement planning company. The School matches 100% of participating employees' contributions up to six percent of the contributing participant's salary, subject to the IRS limit. For the fiscal years ended June 30, 2016 and 2015, the School's matching contributions were \$85,666 and \$101,307, respectively.

The Plan is subject to routine audits by taxing jurisdictions. During fiscal year 2016, the School received a notice from the U.S Department of Labor related to late tax filings. Management has recorded a liability for the penalty payment relating to this late filing assessment. The liability is included in accrued expenses in the accompanying statements of financial position. The School has subsequently filed returns related to the Plan for tax years 2013 through 2015, which remain open with the Internal Revenue Service.

**7. RELATED PARTY TRANSACTIONS**

The founders of the School are Howard University's Board of Trustees. Howard University contributes to the School's operations at its discretion. Howard University made cash contributions in the amount of \$1,000,000, for each of the years ended June 30, 2016 and 2015. As disclosed in note 2, the School is located on Howard University's campus, which is provided rent-free as an in-kind donation.

**SUPPLEMENTARY INFORMATION**

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Supplemental Schedule of Functional Expenses  
For the Year Ended June 30, 2016, with Comparative 2015 Totals**

	2016				2015
	Program Services	General and Administrative	Fundraising	Total	Total
<b>PERSONNEL SALARIES AND BENEFITS</b>					
Salaries	\$ 2,895,689	266,270	\$ 166,419	\$ 3,328,378	\$ 3,589,100
Employee benefits	378,895	34,841	21,776	435,512	402,526
Payroll taxes	231,461	21,284	13,302	266,047	318,963
Travel	6,545	602	376	7,523	27,409
Professional development	8,293	763	477	9,533	37,451
Total salaries, taxes and benefits	<u>3,520,883</u>	<u>323,760</u>	<u>202,350</u>	<u>4,046,993</u>	<u>4,375,449</u>
<b>DIRECT STUDENT COSTS</b>					
Contracted instructional services	196,925	-	-	196,925	223,471
Educational supplies and materials	78,680	-	-	78,680	106,516
Food service/catering	91,364	-	-	91,364	83,861
Other student costs	43,169	-	-	43,169	44,467
Transportation	11,012	-	-	11,012	380
Student assessment materials	12,058	-	-	12,058	7,240
Total direct student costs	<u>433,208</u>	<u>-</u>	<u>-</u>	<u>433,208</u>	<u>465,935</u>
<b>OCCUPANCY EXPENSES</b>					
Rent	877,830	80,720	50,450	1,009,000	1,009,000
Maintenance and repairs	12,099	1,113	695	13,907	51,074
Utilities	39,585	3,640	2,275	45,500	42,000
Building supplies/materials	17,313	1,592	995	19,900	36,897
Contracted building services	4,337	399	249	4,985	10,631
Total occupancy expenses	<u>951,164</u>	<u>87,464</u>	<u>54,664</u>	<u>1,093,292</u>	<u>1,149,602</u>
<b>OFFICE EXPENSES</b>					
Office supplies and materials	21,009	1,932	1,207	24,148	28,090
Office equipment rental and maintenance	7,214	663	415	8,292	551
Telephone/telecommunications	22,536	2,072	1,295	25,903	23,672
Printing and copying	17,521	1,611	1,007	20,139	39,347
Postage and shipping	2,078	191	119	2,388	3,858
Computer and related	24,950	2,294	1,434	28,678	10,088
Memberships and subscriptions	11,393	1,048	655	13,096	640
Other office expenses	770	71	44	885	11,058
Total office expenses	<u>107,471</u>	<u>9,882</u>	<u>6,176</u>	<u>123,529</u>	<u>117,304</u>
<b>GENERAL EXPENSES</b>					
Insurance	26,734	2,458	1,536	30,728	34,935
Administration fee	35,523	3,266	2,042	40,831	42,367
Depreciation	113,957	10,479	6,549	130,985	159,751
Bad debt expense	0	-	-	-	94,728
Fees and licenses	10,562	971	607	12,140	6,464
Professional fees	125,330	11,525	7,203	144,058	291,414
Other general expense	12,958	1,192	745	14,895	1,765
Total general expenses	<u>325,064</u>	<u>29,891</u>	<u>18,682</u>	<u>373,637</u>	<u>631,424</u>
<b>Total Expenses</b>	<u>\$ 5,337,790</u>	<u>\$ 450,997</u>	<u>\$ 281,872</u>	<u>\$ 6,070,659</u>	<u>\$ 6,739,714</u>

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Supplemental Schedule of Functional Expenses  
For the Year Ended June 30, 2015**

	<b>2015</b>			
	<b>Program Services</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
<b>SALARIES, TAXES AND BENEFITS</b>				
Salaries	\$ 3,122,517	\$ 287,128	\$ 179,455	\$ 3,589,100
Employee benefits	350,198	32,202	20,126	402,526
Payroll taxes	277,498	25,517	15,948	318,963
Travel, net of allowance of \$0 in 2015	23,846	2,193	1,370	27,409
Professional development	32,582	2,996	1,873	37,451
<b>Total salaries, taxes and benefits</b>	<b>3,806,641</b>	<b>350,036</b>	<b>218,772</b>	<b>4,375,449</b>
<b>DIRECT STUDENT COSTS</b>				
Contracted instructional services	223,471	-	-	223,471
Educational supplies and materials	106,516	-	-	106,516
Food service/catering	83,861	-	-	83,861
Other student costs	44,467	-	-	44,467
Transportation	331	30	19	380
Student assessment materials	7,240	-	-	7,240
<b>Total direct student costs</b>	<b>465,886</b>	<b>30</b>	<b>19</b>	<b>465,935</b>
<b>OCCUPANCY EXPENSES</b>				
Rent	877,830	80,720	50,450	1,009,000
Maintenance and repairs	44,434	4,086	2,554	51,074
Utilities	36,540	3,360	2,100	42,000
Building supplies/materials	32,100	2,952	1,845	36,897
Contracted building services	9,250	851	530	10,631
<b>Total occupancy expenses</b>	<b>1,000,154</b>	<b>91,969</b>	<b>57,479</b>	<b>1,149,602</b>
<b>OFFICE EXPENSES</b>				
Office supplies and materials	24,438	2,247	1,405	28,090
Office equipment rental and maintenance	479	44	28	551
Telephone/telecommunications	20,594	1,894	1,184	23,672
Printing and copying	34,232	3,148	1,967	39,347
Postage and shipping	3,356	309	193	3,858
Computer and related	8,777	807	504	10,088
Memberships and subscriptions	557	51	32	640
Other office expense	9,623	885	550	11,058
<b>Total office expenses</b>	<b>102,056</b>	<b>9,385</b>	<b>5,863</b>	<b>117,304</b>
<b>GENERAL EXPENSES</b>				
Insurance	30,393	2,795	1,747	34,935
Administration fee	36,860	3,389	2,118	42,367
Depreciation	138,983	12,780	7,988	159,751
Bad debt expense	82,414	7,578	4,736	94,728
Fees and licenses	5,624	517	323	6,464
Professional fees	253,530	23,313	14,571	291,414
Other general expense	1,535	141	89	1,765
<b>Total general expenses</b>	<b>549,339</b>	<b>50,513</b>	<b>31,572</b>	<b>631,424</b>
<b>Total Expenses</b>	<b>\$ 5,924,076</b>	<b>\$ 501,933</b>	<b>\$ 313,705</b>	<b>\$ 6,739,714</b>



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Trustees  
Howard University Public Charter Middle  
School of Mathematics and Science

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Howard University Public Charter Middle School of Mathematics and Science (the School), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 8, 2017.

**Internal Control over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (2016-001).



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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The School's Response to Findings**

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

Washington, DC  
March 8, 2017

*SB & Company, LLC*

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Schedule of Findings and Responses  
For the Year Ended June 30, 2016**

**Finding 2016-001 Material Weaknesses on Internal Controls over Financial Reporting and on Compliance**

***Criteria***

The School must maintain an adequate system of internal control over financial reporting in order to initiate, authorize, record, process and report financial data reliably in accordance with generally accepted accounting principles.

***Condition***

The financial information for the year ended June 30, 2016, included misstatements in certain balance sheet accounts that were the result of ineffective monitoring procedures and closing processes throughout the year. Accounting tasks such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in the financial statements. Cash, investments, accounts receivables, property and equipment, accounts payables and accrued expenses were not reconciled monthly or on an adequate frequency during the year to identify account errors timely. These misstatements, in certain circumstances, resulted in material audit adjustments and delays in completing the audit.

***Cause***

The School has had turnover in accounting and management personnel during the past two years and some of the internal controls relating to the review and analysis of accounts were not performed on a timely basis.

***Effect***

The delay in completing account analysis for the financial statement accounts allowed for errors and irregularities to go undetected.

***Recommendation***

In order to provide more accurate and timely accounting information, we strongly recommend that the School establish more effective review and reconciliation policies and procedures as a customary part of the accounting process. Management should develop a monthly close process with a timeline and the specific account analyses to be performed. This would involve monthly reconciliations of all accounts, making various adjustments throughout the year that have typically been performed at year-end, and performing more frequent reviews of the general ledger throughout the year.

**HOWARD UNIVERSITY PUBLIC CHARTER MIDDLE  
SCHOOL OF MATHEMATICS AND SCIENCE**

**Schedule of Findings and Responses (continued)  
For the Year Ended June 30, 2016**

***Corrective Action Plan***

Management agrees with the recommendations. We plan to strengthen the year-end financial reporting and close process by developing key internal controls including (a) developing a hierarchy of required review procedures to ensure that the financial information presented for audit have been prepared and reviewed prior to audit (b) ensuring that all team members receive adequate training on new and emerging accounting guidance and the relevant accounting software utilized by the Middle School (c) developing more written policies and procedures around the accounting close and reconciliation process and (d) ensuring that monthly reconciliations are performed for all accounts and that adjustments are made during the year as needed. Additionally, we will study the existing staff resources to assess whether additional support is needed to meet all of the required responsibilities of the finance and accounting function.