SHINING STARS MONTESSORI ACADEMY
PUBLIC CHARTER SCHOOL
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Together With Independent Auditor's Report)

BERT SMITH & CO.
CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

SHINING STARS MONTESSORI ACADEMY PUBLIC CHARTER SCHOOL
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Shining Stars Montessori Academy Public Charter School
Washington, D.C.

Report on Financial Statements

We have audited the accompanying financial statements of the Shining Stars Montessori Academy Public Charter School (the School) which comprise the statement of financial position as of June 30, 2017 and the related statements of activities and changes 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 the 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the School as of June 30, 2017 and the changes 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.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the School's current liabilities exceed its current assets by $495,671 as of June 30, 2017. The School's Management plan is to implement strategies to improve and balance its liquidity needs which is further described in Note 8. Our opinion is not modified with respect to this matter.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses on page 10 is presented for the purpose 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the School's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated, November 10, 2016. In our opinion, the summarized comparative information presented therein, as of and for the year ended June 30, 2016 is consistent in all material respects, with the audited financial statements from which it was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017, on our consideration of the School's internal control over financial reporting and on 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 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.

Bert Smith & Co.

November 30, 2017
Washington, D.C.

SHINING STARS MONTESSORI ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(With Comparative Totals for 2016)

	2017	2016
ASSETS		
Current Assets		
Cash	$ 386,297	$ 429,615
Due from District	21,677	39,252
Deposit	3,000	60,667
Prepaid Expenses	12,268	12,330
Total Current Assets	423,242	541,864
Noncurrent Assets		
Deposit	134,167	-
Property and Equipment, net	290,165	71,589
Total Noncurrent Assets	424,332	71,589
Total Assets	$ 847,574	$ 613,453
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	$ 105,869	$ 158,976
Due to Howard University	603,750	-
Accrued Expenses	80,557	77,239
Unearned Revenue	52,283	-
Deferred Rent	76,453	-
Total Current Liabilities	918,912	236,215
Unrestricted Net Assets (Deficit)	(71,339)	377,238
TOTAL LIABILITIES AND NET ASSETS	$ 847,574	$ 613,453

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

SHINING STARS MONTESSORI ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	2017	2016
Unrestricted Revenue and Support		
Per Pupil Allotment	$ 3,401,478	$ 2,802,222
Federal Revenue	131,264	83,257
Local Revenues	50,846	23,998
Contributions	12,566	353
Meal Sales	31,602	22,574
Other Revenue	10,601	15,210
Total Revenue and Support	3,638,357	2,947,614
Expenses		
Program Services	3,256,770	2,506,492
General and Administration	830,164	474,539
Total Expenses	4,086,934	2,981,031
Change In Net Assets	(448,577)	(33,417)
Net Assets, Beginning of Year	377,238	410,655
Net Assets, End of Year	$ (71,339)	$ 377,238

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

SHINING STARS MONTESSORI ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash Flows from Operating Activities		
Change in Net Assets	$ (448,577)	$ (33,417)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	128,103	55,730
(Increase) Decrease in Assets:		
Receivables	17,575	78,837
Prepaid Expenses	62	(1,442)
Deposits	(76,500)	14,833
Increase (Decrease) in Liabilities:		
Accounts Payable	(53,105)	6,685
Accrued Expenses	3,318	9,752
Due to Howard University	603,750	-
Unearned Revenue	52,283	-
Deferred Rent	76,453	(3,163)
Net Cash Provided by Operating Activities	303,362	127,815
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(346,680)	(34,184)
Net Cash Used in Investing Activities	(346,680)	(34,184)
Net (Decrease) Increase in Cash	(43,318)	93,631
Cash, Beginning of Year	429,615	335,984
Cash, End of Year	$ 386,297	$ 429,615

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Shining Stars Montessori Public Charter School (the School) was incorporated in 2010 as a non-profit organization. The School received a charter in 2010 to operate as a charter school pursuant to the District of Columbia Reform Act of 1995. Located in Washington, D.C., the School is a public academic school serving students in pre-kindergarten through kindergarten grades. The mission of the School is to offer a quality Montessori education infused with culturally inclusive principles to guide children to develop to their fullest potential. The School's major source of funding is an annual per pupil allotment from the Government of the District of Columbia (District). The School also receives funding from the federal government, student fees, and activities.

Basis of Accounting: The accompanying financial statements of the School have been prepared on the accrual basis of accounting.

Basis of Presentation: The School reports information regarding its financial position and activities in two classes of net assets: unrestricted net assets and temporarily restricted net assets.

- *Unrestricted Net Assets* - net assets that are not subject to donor-imposed stipulations.

- *Temporarily Restricted Net Assets* - net assets subject to donor-imposed stipulations that will be met either by actions of the School and/or the passage of time. The School did not have any temporarily restricted net assets at June 30, 2017.

Revenues are reported and recorded as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as an increase in temporarily restricted. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a donor restriction expires in the same reporting period, the School reports the contributions as unrestricted.

Revenue Recognition: The School records revenue when earned. Amounts received that have not been earned are recorded as deferred revenue.

Cash and Cash Equivalents: The School considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Property and Equipment: The School capitalizes all fixed assets with a unit cost of $1,000 or more, and bulk assets of $5,000 or more. Depreciation expense is recorded using the straight-line method over the fixed assets' estimated useful lives. Maintenance and repairs are expensed. Those estimated useful lives are as follows:

Leasehold Improvements	Lease term
Furniture and Equipment	7 years
Computers	3 years

Deferred Rent: Deferred rent represents the difference between the total minimum lease payments amortized over the lease term and actual rent paid each fiscal year.

Income Taxes: The School, a nonprofit organization operating under Section 501(c)(3) of the Internal Revenue Code, is generally exempt from federal, state and local income taxes, and, accordingly, no provision for income taxes is included in the financial statements.

Financial Accounting Standards Board (FASB), Accounting Standards Codification 740, *Income Taxes* (ASC 740) requires that a tax position be recognized or derecognized based on a "more-likely-than-not" threshold. This applies to positions taken or expected to be taken in a tax return. As of June 30, 2017, management has assessed its various tax positions and it believes there are no liabilities for uncertain tax positions.

The School's tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

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 certain amounts of assets and liabilities. These estimates also affect the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized as additional information on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Pronouncements to be Adopted: FASB 958, ASU-2016-14*"Presentation of Financial Statements of Not-for-Profit Entities"*. This standard enhances disclosures and amends the requirements for financial statements and notes for non-profit organizations to require the presentation of the financial statements in two classes of net assets rather than for the currently required three classes. In addition, the amendment no longer requires the presentation or disclosure of the indirect method (reconciliation) if using the direct method. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early implementation of the standard is permitted. However, the School has elected not to early implement.

Financial Accounting Standards Board (FASB) issued Topic 842, ASU-2016-02 "Lease." Under the pronouncement, lessees with an operating lease will be required to recognize (a) a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position and (b) single lease cost calculated so that the cost of the lease is allocated over the lease term on a generally straight line basis. The pronouncement is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early implementation of the standard is permitted. However, the School has elected not to early implement.

Reclassifications: Certain amounts from 2016 have been reclassified to conform to the 2017 financial statement presentation.

NOTE 2 CONCENTRATION OF CREDIT RISK

The School maintains its cash in several financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to $250,000. At June 30, 2017, the uninsured cash balance totaled $89,975.

NOTE 3 DUE FROM DISTRICT

The School receives an annual per pupil allotment and federal funds as a pass-through from the District. At June 30, 2017, the amount due from the District was $21,677.

NOTE 4 PROPERTY AND EQUIPMENT

Leasehold Improvements	$ 226,056
Equipment and Furniture	194,280
Total Fixed Assets	420,336
Less: Accumulated Depreciation	(130,171)
Net Fixed Assets	$ 290,165

Depreciation expense during fiscal year 2017 was $128,103.

NOTE 5 PER PUPIL ALLOTMENT

The School receives an annual per pupil allotment from the District that is based on its student enrollment. The pupil allotment represented about 93% of the School's total revenue. The per pupil allotment consist of the following at year-end:

Per Pupil Allotment - Education	$2,776,678
Per Pupil Allotment - Facilities	624,800
	$3,401,478

NOTE 6 RETIREMENT PLAN

The School has a 401(k) Retirement Plan (Plan). All employees are eligible to participate in the Plan upon hiring. The School contributes 3% of the employee's salary if approved in the budget. The School's contribution to the Plan in fiscal year 2017 was $2,245.

NOTE 7 COMMITMENTS AND CONTINGENCIES

Commitments

During the fiscal year, the School signed a ten year occupancy lease with Howard University for the property at 1740 Randolph Street, N.E. Rent expense for fiscal year 2017 was $905,387.

The future minimum lease payments under the leases were as follows:

2018	$ 821,100
2019	837,522
2020	854,272
2021	871,358
2022	888,785
Thereafter	3,736,489
	$8,009,526

At June 30, 2017, the School had outstanding rent payments due to Howard University of $603,750. The School is currently in negotiations with Howard University to purchase the building. No formal agreement has been reached related to the building purchase.

Contingencies

The School asserts that there have been no material claims, suits, or complaints filed nor any pending against the organization. In the opinion of legal counsel, all other matters which are asserted or unasserted are without merit and would not have a significant effect on the financial position or results of operations of the organization if disposed of unfavorably.

NOTE 8 CURRENT LIQUIDITY

As of June 30, 2017, the School's current liabilities of $918,913 exceeded its current assets of $423,242 by $495,671. The decrease in liquidity is primarily due to the School's new occupancy lease with Howard University which began in FY 2017 (see Note 7 above). To address its liquidity needs, the School has begun to institute cost reduction activities which includes reducing administrative costs such as capital improvements. It also anticipates gradual increases in contributions through fundraising efforts and revenue from student enrollment.

Additionally, the School is currently in discussions with Howard University to purchase the building it currently occupies. Through this purchase, the School predicts it will further reduce its future cash outflow obligations in the current fiscal year, resulting in a net positive cash flow, since the mortgage payments are anticipated to be lower than the current lease obligations.

The School continues to evaluate its overall operating strategies in order to improve its net assets position and cash flows.

NOTE 9 SUBSEQUENT EVENTS

The School has evaluated any subsequent events through November 30, 2017, which is the date the financial statements were available to be issued. This review and evaluation revealed no material events that would have an effect on the accompanying financial statements.

SHINING STARS MONTESSORI ACADEMY PUBLIC CHARTER SCHOOL
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	Program Services	General and Administration	2017	2016
Personnel Costs				
Salaries	$ 1,315,116	$ 317,632	$ 1,632,748	$ 1,392,882
Employee Benefits	208,369	50,326	258,695	257,983
Professional Development	87,297	-	87,297	105,398
Total Personnel Costs	1,610,782	367,958	1,978,740	1,756,263
Direct Student Costs				
Supplies and Materials	131,937	-	131,937	106,292
Contracted Instruction	67,559	-	67,559	178,852
Contracted Student Services	140,049	-	140,049	100,134
Student Assessment	6,098	-	6,098	717
Other Student Costs	13,815	-	13,815	25,620
Total Direct Student Costs	359,458	-	359,458	411,615
Occupancy Expenses				
Rent	724,310	181,077	905,387	287,150
Utilities	82,922	20,731	103,653	26,559
Maintenance and Repairs	99,199	24,800	123,999	41,668
Depreciation- Facilities	79,546	19,887	99,433	31,615
Total Occupancy Expenses	985,977	246,495	1,232,472	386,992
Office Expenses				
Supplies and Materials	28,682	7,170	35,852	49,210
Equipment Rental	13,972	3,493	17,465	12,126
Telecommunications	4,893	1,223	6,116	3,056
Professional Fees	40,861	150,834	191,695	147,417
Printing and Copying	-	-	-	2,313
Postage and Shipping	481	120	601	2,524
Membership and Subscriptions	-	-	-	5,544
Total Office Expenses	88,889	162,840	251,729	222,190
General Expenses				
Insurance	9,220	2,305	11,525	7,218
Charter Administrative Fees	-	38,663	38,663	30,440
Transportation	-	-	-	1,831
Food Service/Catering	154,831	-	154,831	120,797
Depreciation Expense	22,936	5,734	28,670	24,115
Other General Expenses	24,677	6,169	30,846	19,570
Total General Expenses	211,664	52,871	264,535	203,971
Total Expenses	$ 3,256,770	$ 830,164	$ 4,086,934	$ 2,981,031

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

The Board of Trustees
Shining Stars Montessori Academy, Public Charter School
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Shining Stars Montessori Academy Public Charter School (the School), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 30, 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 opinion 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.

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

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

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

Purpose of this Report

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

Bert Smith & Co.

November 30, 2017
Washington, D.C.