

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**Annual Financial and Compliance Audit
For the Year Ended June 30, 2017**

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

FOR THE YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

Independent Auditor’s Report	1
Financial Statements:	
Statements of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
Supplementary Information:	
Schedules of Functional Expenses	15
Compliance and Internal Control	
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 <i>Government Auditing Standards</i>	16
Schedule of Findings and Responses	18
Summary Schedule of Prior Audit Findings and Current Status	20



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Washington Math Science Technology
Public Charter High School, Inc.
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Washington Math Science Technology Public Charter High School, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities 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 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.



Opinion

In our opinion, the financial statements referred to above 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

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 11 to the financial statements, the School’s significant operating losses raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 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.

Washington, D.C.
October 26, 2017

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017**

ASSETS

Current Assets:

Cash and cash equivalents	\$ 36,337
Restricted cash	2,872
Due from District of Columbia	127,992
Total Current Assets	167,201

Noncurrent Assets:

Deferred charges, net	93,194
Property and equipment, net	5,855,169
Total Noncurrent Assets	5,948,363

TOTAL ASSETS \$ 6,115,564

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 234,391
Accrued expenses	164,391
Line of credit	300,000
Notes payable	299,709
Total Current Liabilities	998,491

Noncurrent Liabilities:

Note payable	5,907,922
Total Noncurrent Liabilities	5,907,922

TOTAL LIABILITIES 6,906,413

NET ASSETS

Unrestricted	(790,849)
Total Net Assets	(790,849)

TOTAL LIABILITIES AND NET ASSETS \$ 6,115,564

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

REVENUES

Unrestricted Revenue:

Per pupil allotment	\$	5,558,684
Federal		643,476
Grants and contributions		101,708
Fund raising		14,952
Other		23,688
Toatal Unrestricted Revenue		<u>6,342,508</u>

EXPENSES

Program services		5,208,175
General and administration		1,932,520
Fundraising		8,306
TOTAL EXPENSES		<u>7,149,001</u>
Change in net assets		(806,493)
NET ASSETS, BEGINNING OF YEAR		15,644
NET ASSETS, END OF YEAR	\$	<u>(790,849)</u>

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (806,493)
Adjustments to Reconcile Change in Net Assets to Net Cash provided by perating Activities:	
Depreciation and amortization	452,961
<i>Change in:</i>	
Receivables	45,906
Accounts payable	218,480
Accrued expenses	(50,927)
Net cash used in operating activities	<u>(140,073)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(88,823)
Net cash used in investing activities	<u>(88,823)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Borrowing on line of credit	300,000
Payments on note payable	(287,828)
Net cash provided in financing activities	<u>12,172</u>
DECREASE IN CASH	(216,724)
CASH, BEGINNING OF YEAR	255,933
CASH, END OF YEAR	<u>\$ 39,209</u>
Supplemental Disclosure	
Interest paid	<u>\$ 200,922</u>

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Washington Math Science Technology Public Charter High School, Inc. (WMST or the School) is an independent public charter school incorporated on January 29, 1998, under the laws of the District of Columbia (DC or District) as specified in the District of Columbia School Reform Act. The school was granted its public charter by the District of Columbia Public Charter School Board on March 23, 1998, and operates under terms and conditions specified in the Charter School Agreement dated September 4, 1998. The school currently serves 277 students. 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 federal funding from the federal government, student fees, and activities. These funds are expended on programs and activities designed to provide educational and related services to the School's students.

Basis of Accounting and Presentation

The financial statements of the School were prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (U.S. GAAP). The Financial Accounting Standards Board (FASB) is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

The School is required by U.S. GAAP to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as defined below:

Unrestricted net assets– These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the School. Unrestricted net assets may be designated for specific purpose by action of the Board of Directors. At June 30, 2017, the School's unrestricted net assets was in a net deficit position of \$790,849.

Temporarily restricted – These are resources that are subject to donor-imposed stipulations that may or will be met, either by actions of the School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The School did not have any temporarily restricted net assets at June 30, 2017.

Permanently restricted – These are net assets required to be maintained in perpetuity with only the income to be used for the School's activities due to donor-imposed restrictions. There were no permanently restricted net assets at June 30, 2017.

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.
NOTES OF FINANCIAL STATEMENTS
JUNE 30, 2017**

In addition, the School is required by FASB Accounting Standards Codification (ASC) Topic 958-205, *Not-for-Profit Entities-Presentation of Financial Statements*, to present statements of activities and cash flows.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

The School considers all monies in banks and highly liquid investment instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. The carrying value approximates fair value because of the short maturities of those financial instruments. The school did not have any cash equivalents as of June 30, 2017.

Receivables

Grants receivable consists of outstanding collections from federal entitlements and is stated at net realizable value. On a periodic basis, management evaluates its receivable balances and establishes an allowance for doubtful accounts based on management's analysis of possible bad debts. It is the School's policy to write off uncollectible balances receivable when management determines that the receivable will not be collected.

Property and Equipment

The school capitalizes all property and equipment which include land and improvements, buildings and improvements, and furniture and equipment, are reported in the financial statements. The school capitalizes all property and equipment with an individual cost of more than \$1,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty years, using the straight-line method of depreciation. Leasehold improvements are depreciated over the life of the lease. Expenditures for additions, major renewals and betterments are capitalized. Maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which in then treated as cost.

Per Pupil Appropriations

The School receives a per student allocation from the District of Columbia to cover the cost of academic and facilities expenses. Pupil allocation revenue is recognized in the period when it is earned, which is the school year for which the allocation is made. Unearned pupil allocation collections are recorded as deferred revenue.

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**NOTES OF FINANCIAL STATEMENTS
JUNE 30, 2017**

Contributions and Grants

The School accounts for contributions in accordance with FASB ASC Topic 958-605, Not-for-Profit Entities-Revenue Recognition. In accordance with FASB ASC Topic 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Income Tax

The School is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. The exemption from District of Columbia income taxes was granted to the School effective May, 2000. Accordingly, income taxes are not provided for in the accompanying financial statements. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Code.

The School applies the provisions of FASB ASC 740, Income Taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The School believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The School's Federal income tax returns for the years 2014 through 2016 remain open to examination by IRS, and District authorities 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 certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the School's financial statements are related to the School's estimate of revenue and receivable for Per Pupil Appropriations, depreciation expense and the functional allocation of expenses.

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.
NOTES OF FINANCIAL STATEMENTS
JUNE 30, 2017**

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.

New Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 – Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated balance sheets for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of activities. The new standard is effective for WMST for the fiscal year beginning July 1, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. WMST is currently evaluating the impact of the pending adoption of the new standard.

NOTE 2: CONCENTRATION OF CREDIT RISK

The School maintains its cash in financial institutions where, at times, balances may exceed the federally insured limit of \$250,000. The School has not experienced losses on such accounts and management believes that the risk of loss, if any, is minimal. The School had no uninsured balances exceeding the federally insured limit in 2017.

NOTE 3: RESTRICTED CASH

The school is required to maintain a separate escrow account for payment of its mortgage principal and interest. At June 30, 2017 the balance was \$2,872.

NOTE 4: DUE FROM DISTRICT GOVERNMENT

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 \$127,992.

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**NOTES OF FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5: DEFERRED CHARGES

Deferred charges represent costs related to mortgage issuance costs. The costs are amortized over the life of the note.

Deferred Charges	\$ 145,952
Accumulated Amortization	<u>(52,758)</u>
Net Deferred Charges	<u><u>\$ 93,194</u></u>

Depreciation and amortization expenses was \$6,054 for the year ended June 30, 2017.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2017 :

Land and improvements	\$ 327,600
Building and improvements	8,887,139
Furniture and equipment	1,227,617
Computers and network costs	324,872
Textbooks	<u>63,168</u>
Total property and equipment	10,830,396
Less: Accumulated depreciation	<u>(4,975,227)</u>
Property and equipment, net	<u><u>\$ 5,855,169</u></u>

Depreciation was \$446,907 for the year ended June 30, 2017.

NOTE 7: LINE OF CREDIT

The School maintains a \$300,000 revolving line-of-credit with an annual renewal option and interest charged on any outstanding principal balance at the prime rate plus 1%. The outstanding balance as of June 30, 2017 was \$300,000.

NOTE 8: NOTE PAYABLE

In 2008 the School converted a notes payable into a debt instrument to consolidate its debt and obtain more favorable interest rates. The conversion resulted in the issuance of \$8,048,000 tax free, twenty-five year Series 2008 District Revenue Bonds (the "Bonds") due August 1, 2033, with Amortization Payment Dates within those years. The term of these bonds is twenty-five years at an interest rate of 3.11% per annum.

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**NOTES OF FINANCIAL STATEMENTS
JUNE 30, 2017**

All costs associated with the debt conversion including issuance costs, but excluding certain fees, have been capitalized for amortization over the life of the Bond. The debt is collateralized by the School's building and certain other assets. Bond issuance costs balance was \$93,194 at June 30, 2017. Amortization of bond issuance costs was \$6,054 for the year ended June 30, 2017. The interest paid during the fiscal year was \$200,707 the custodian of the loan is United Bank. At June 30, 2017, the total amount payable under the note was \$6,207,631.

Annual debt service requirements to maturity of the loans payable are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 299,709	\$ 188,826	\$ 488,535
2019	309,164	179,371	488,535
2020	318,918	169,617	488,535
2021	328,979	159,556	488,535
2022	339,357	149,178	488,535
Thereafter	4,611,504	854,922	5,466,426
Total	<u>\$ 6,207,631</u>	<u>\$ 1,701,470</u>	<u>\$ 7,909,101</u>

The School is subject to compliance with a minimum debt service coverage ratio of 1.2 to 1 and maintaining a net asset balance above \$150,000. At June 30, 2017, the School was not in compliance with the debt covenants. The School received a waiver from United Bank.

NOTE 9: RETIREMENT PLAN

The School established a Simplified Employee Pension/Teachers' Retirement Association (SEP/TRA) Qualified Retirement Plan (Plan) on behalf of its teachers and other employees completing six months of service. The Plan provides for discretionary employer contributions. During fiscal year 2017, the School contributed \$150,306 to the plan.

NOTE 10: 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 88% of the School's total revenue.

The per pupil allotment consist of the following for the fiscal year ended June 30, 2017:

Education	\$ 4,693,336
Facilitites	865,348
	<u>\$ 5,558,684</u>

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**NOTES OF FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11: CONTINGENCIES, RISKS AND UNCERTAINTIES

Emphasis of Matter:

As indicated in the accompanying financial statements, the School has experienced an operating loss during the year ended June 30, 2017, of \$806,493. This loss resulted in a net asset deficit of \$790,849 as of June 30, 2017. These factors create uncertainty about the School's ability to continue as a going concern.

Management and the Board of Directors have evaluated these conditions and determined that a reduction of expenses would alleviate this uncertainty. As a result of this loss, WMST's financial statements reflect a net deficit in unrestricted assets at June 30, 2017. To counter the liquidity risk and eliminate operating losses WMST, management has initiated an aggressive plan to:

1. Reducing staff members
2. Recruit new students to enroll in WMST
3. Sale our school facility
4. Select a new School facility

Beginning in August of this academic school year, WMST reduced the number of staff members from 61 to 45. Mindful and deliberate attention was given to the specific content areas, areas of expertise and value added to determine which staff members remained. Meticulous analysis and study was given to ensure that each decision made did not inhibit/hinder existing academic and social programs.

Our second focus has been to recruit new students to enroll in WMST. That effort is evidenced, first, through our increased and innovative effort to broaden communication across a wider audience about our school and its offerings. Recently, we have updated our webpage, utilized social media sites like "twitter" and are in the process of designing a WMST online newsletter. Additionally, WMST's Board of Trustees distributed brochures at nearby community shopping centers and WMST staff (teachers, counselors, security, etc.) are scheduled to visit neighborhood middle schools and attend several recruitment fairs, like EdFest in the near future.

Our endeavor to increase recruitment efforts extends beyond visits, publications and fairs. WMST's Board of Trustees and our Leadership Team have selected a new school facility. Our hope is to enter that facility within one year, based on the projection schedule of renovation. That newly renovated facility will offer features such as a state-of-the-art gymnasium, a media center and larger classroom sizes, features that we are not able to offer in our present school building. It is important to note that these added features, within themselves, are attractive to students considering a school of choice. Additionally, leaving our present area, an area that is desolated by the abandonment of Walmart and saturated with industrial and commercial development, is a welcomed change and an automatic cause of attraction to potential new

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.
NOTES OF FINANCIAL STATEMENTS
JUNE 30, 2017**

recruits. Additionally, the selling of our present dwelling, affords WMST a surplus of profit that will financially benefit us for at least another school year.

In addition to the attractive new features that WMST's new school site will provide, we are excited that it is located in a portion of Washington DC that is near a large residential/apartment community and is conveniently close to two elementary schools and one middle school. Both the residents of that community and the presence of feeder schools offer numerous recruitment opportunities for WMST as well as increased PR and communication advantages.

Lastly, WMST has taken added measures to retain its present student population. To that end, we have initiated the following ingenuities to fit the specific academic needs of our students:

- Online classes to allow students to receive credit for courses either previously failed or not completed
- Twilight Program courses to allow credit recovery for students that have not yet fulfilled their requirement for a targeted graduation date.
- Parent Cafes each month that allow parents to voice their concerns and needs of their students.
- Student "Meets" where students are able to speak directly with the Head of School regarding their needs and concerns on each Tuesday.
- "Talk to the Boss" where teachers are able to meet with the Head of School during lunch on a weekly basis to discuss concerns, needs or wishes that they may not be able to voice in a public forum.
- The WMST Board of Trustees will begin to meet with the student government officers to better understand their perspective of WMST and forge a plan to drive student recruitment from a student & community perspective.

It is important to note that our efforts to balance the budget, increase enrollment and retain present students is a continual work in progress. We will continue to explore new opportunities, invent and create new territories and solicit suggestions and new networks in order to reach intended result.

Other Matters:

The School was granted its charter by the District of Columbia Public Charter School Board, authorized under the District of Columbia School Reform Act of 1995, Public Law 104-134, as amended. The School has no reason to believe that this relationship will be discontinued in the foreseeable future. However, any interruption of this relationship (i.e., the failure to continue this charter authorization or withholding funds) could adversely affect the School's ability to finance ongoing operations.

The School depends on per pupil allocations, grants, and contributions for a significant portion of its revenues. The ability of the sources of revenues to continue giving amounts comparable with

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.
NOTES OF FINANCIAL STATEMENTS
JUNE 30, 2017**

prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of grants and contributions to the School. While the School's board of directors and management believes the School has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on the above factors.

Federal grants

The School participates in federally assisted grant programs, which are subject to financial and compliance audits by the grantors or their representative. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

NOTE 12: SUBSEQUENT EVENTS

The school has evaluated any subsequent events through October 26, 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.

SUPPLEMENTARY INFORMATION

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**Schedule of Functional Expenses
For the Year Ended June 30, 2017**

	Program Services	General and Administration	Fundraising	Total
Personnel, Salaries and Benefits				
Salaries	\$ 2,522,236	\$ 951,828	\$ -	\$ 3,474,064
Payroll taxes	160,060	108,108	-	268,168
Fringe benefits	460,064	274,200	-	734,264
Training and development	61,478	36,589	-	98,067
Consultants	-	8,694	-	8,694
Total Personnel, Salaries and Benefits	<u>3,203,838</u>	<u>1,379,419</u>	<u>-</u>	<u>4,583,257</u>
Direct Student Cost				
Contracted instructional fees	688,065	-	-	688,065
Supplies and materials	169,472	-	-	169,472
Miscellaneous student activity	70,511	-	-	70,511
Textbooks	6,521	-	-	6,521
AVID program	4,669	-	-	4,669
IB program	26,216	-	-	26,216
Student transportation	33,347	-	-	33,347
Other student costs	10,161	-	-	10,161
Student sports expense	30,936	-	-	30,936
Teacher and student recruitment	1,303	-	-	1,303
Total Direct Student Costs	<u>1,041,201</u>	<u>-</u>	<u>-</u>	<u>1,041,201</u>
Occupancy Expenses				
Mortgage interest	147,138	53,569	-	200,707
Repairs and maintenance	46,856	17,058	-	63,914
Janitorial expenses	9,552	3,477	-	13,029
Utilities	61,441	22,368	-	83,809
Depreciation - facilities	236,000	118,726	-	354,726
Total Office Expenses	<u>500,987</u>	<u>215,198</u>	<u>-</u>	<u>716,185</u>
Office Expenses				
Supplies and materials	14,671	24,947	-	39,618
Equipment rental	8,400	14,283	-	22,683
Telephone	34,798	12,404	-	47,202
Printing and reproduction	9,226	16,130	590	25,946
Postage	3,430	5,215	-	8,645
Computers	-	6,731	-	6,731
Dues and subscriptions	947	6,546	-	7,493
Total Office Expenses	<u>71,472</u>	<u>86,256</u>	<u>590</u>	<u>158,318</u>
General Expenses				
Depreciation and amortization	35,571	62,664	-	98,235
Food services and lunch program	229,942	-	-	229,942
Insurance	26,894	16,768	-	43,662
Catering	-	26,018	-	26,018
Other general expenses	23,963	26,311	7,716	57,990
Legal audit fees	36,650	47,840	-	84,490
Charter admin and program fees	-	63,667	-	63,667
School crossing	37,657	-	-	37,657
Bank fees	-	8,164	-	8,164
Interest	-	215	-	215
Total General Expenses	<u>390,677</u>	<u>251,647</u>	<u>7,716</u>	<u>650,040</u>
Total Expenses	<u>\$ 5,208,175</u>	<u>\$ 1,932,520</u>	<u>\$ 8,306</u>	<u>\$ 7,149,001</u>

COMPLIANCE AND INTERNAL CONTROLS



**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***

To the Board of Directors of
Washington Math Science Technology
Public Charter High School, Inc.

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 Washington Math Science Technology Public Charter High School, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2017 which contained an unmodified opinion on these financial statements.

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 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. We consider the deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as finding No. 2017-01 to be a significant deficiency in internal control over financial reporting.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any



deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instance of noncompliance or other matters that is 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 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, D. C.
October 26, 2017

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**Summary Schedule of Findings and Responses
For the Year Ended June 30, 2017**

PART 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Section

1. Type of auditor’s report issued:	Unmodified
2. Internal control over financial reporting:	
a) Material weaknesses identified?	No
b) Significant deficiencies identified which are not considered to be material weaknesses?	Yes
c) Noncompliance material to the financial statements noted?	No

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**Summary Schedule of Findings and Responses
For the Year Ended June 30, 2017**

PART II: FINDINGS – FINANCIAL STATEMENT

Finding No. 2017-001: Significant Deficiency in Internal Controls Over Financial Reporting

Condition: During the course of our audit procedures, we noted the following:

1. The School did not properly account for and record payables as part of its year end close process in accordance with U.S. GAAP. During the course of our audit, it was noted that the School failed to accrue salaries and related benefits as well as retirement contributions.
2. The School did not properly account for depreciation on fixed assets in accordance with U.S. GAAP. While it was noted that depreciation was not recorded on existing depreciable assets in the current year.

Criteria: Effective internal controls over financial reporting include proper recording of transactions in the general ledger, adequate supervision and review of transactions to assure the completeness and accuracy of financial information.

Cause: The School has a deficient system of internal controls with respect to recording transactions in accordance with U.S. GAAP.

Effect: Significant misstatements in the general ledger were noted. For the year ended June 30, 2017, salaries and related employee benefits as well as annual retirement contribution were understated by approximately \$326,700. In addition, there was an understatement of depreciation expense and the corresponding accumulated depreciation by approximately \$45,500.

Recommendations: We recommend that the School strengths its existing policies and procedures that ensure that accruals and depreciations are properly stated.

Views of Responsible Officials and Planned Corrective Action:

The School agrees with the recommendation and in process of implementation of additional policies and procedures. The School will correct their depreciation schedules to reflect the accurate depreciable useful lives and record timely such rates thereafter so that by the year 2016-2017, all schedules will be in accordance with US GAAP.

**WASHINGTON MATH SCIENCE TECHNOLOGY
PUBLIC CHARTER HIGH SCHOOL, INC.**

**Summary Schedule of Prior year Findings and Current Status
For the Year Ended June 30, 2016**

PART III: STATUS OF PRIOR YEAR FINDINGS

Finding No. 2016-001: Accurate Reporting of Paid Compensation

The School did not adhere to the best and required practices in the accounting for and disbursements of various types of compensation. We understand that the School believes that it had followed long established policies and guidance. However, we believe that the School must immediately cease its current practices. All remuneration should be reported as compensation and reported in the period of payment and the prescribed payroll information form. Such reporting must encompass all payments including those for extra services and non-salaried positions.

Every effort should be taken to ensure that the appropriate taxes are withheld and reported. All payments for services should be documented accordingly reported.

Current Status: The School has already begun the process of ensuring that all remuneration is reported as compensation through categorizing qualifying vendor's payments and services as Form 1099 recipients.

Auditor's Note: The finding is resolved.