

HARMONY DC PUBLIC CHARTER SCHOOLS

WASHINGTON, DC

COMPARATIVE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

KENDALL, PREBOLA AND JONES

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Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Trustees
Harmony DC Public Charter Schools
62 T Street, NE
Washington, DC 20002

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Harmony DC Public Charter Schools, (a nonprofit organization) which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Harmony DC Public Charter Schools as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Other Information**

We have audited the financial statements of the Harmony DC Public Charter School as of and for the years ended June 30, 2019 and 2018, and our report thereon dated November 27, 2019, expressed an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of contracts awarded in excess of \$25,000, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2019, on our consideration of the Harmony DC Public Charter Schools' 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 solely 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 effectiveness of the Harmony DC Public Charter Schools' 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 Harmony DC Public Charter Schools' internal control over financial reporting and compliance.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 27, 2019

HARMONY DC PUBLIC CHARTER SCHOOLS
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 525,273	\$ 377,265
Accounts Receivable	25,685	8,807
Grants Receivable	13,486	27,989
Prepaid Expenses	<u>18,092</u>	<u>11,895</u>
Total Current Assets	<u>\$ 582,536</u>	<u>\$ 425,956</u>
<u>Fixed Assets:</u>		
Fixed Assets, Net of Accumulated Depreciation	<u>\$ 19,177</u>	<u>\$ 94,507</u>
Total Fixed Assets	<u>\$ 19,177</u>	<u>\$ 94,507</u>
<u>Other Assets:</u>		
Deposits	<u>\$ 105,730</u>	<u>\$ 105,730</u>
Total Other Assets	<u>\$ 105,730</u>	<u>\$ 105,730</u>
TOTAL ASSETS	<u>\$ 707,443</u>	<u>\$ 626,193</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable and Accrued Expenses	\$ 38,640	\$ 42,027
Due to Related Party	-	32,209
Payroll Taxes and Related Liabilities	23,835	35,573
Accrued Interest Payable	619	616
Accrued Salaries and Leave	67,037	51,187
Unearned Revenue	420	1,058
Line of Credit	198,103	198,103
Current Portion of Deferred Rent	-	19,105
Current Portion of Capital Lease Payable	<u>6,256</u>	<u>6,148</u>
Total Current Liabilities	<u>\$ 334,910</u>	<u>\$ 386,026</u>
<u>Long-Term Liabilities:</u>		
Deferred Rent	\$ -	\$ 19,105
Less: Current Portion Deferred Rent	-	(19,105)
Capital Lease Payable	7,329	13,477
Less: Current Portion of Lease	<u>(6,256)</u>	<u>(6,148)</u>
Total Long-Term Liabilities	<u>\$ 1,073</u>	<u>\$ 7,329</u>
Total Liabilities	<u>\$ 335,983</u>	<u>\$ 393,355</u>
<u>Net Assets:</u>		
Without Donor Restrictions	\$ 368,960	\$ 232,838
With Donor Restrictions	<u>2,500</u>	<u>-</u>
Total Net Assets	<u>\$ 371,460</u>	<u>\$ 232,838</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 707,443</u>	<u>\$ 626,193</u>

(See Accompanying Notes and Auditor's Report)

HARMONY DC PUBLIC CHARTER SCHOOLS
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>June 30, 2019</u>			<u>June 30, 2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Revenues and Other Support:</u>						
Per Pupil Funding Allocation	\$ 1,737,074	\$ -	\$ 1,737,074	\$ 1,432,316	\$ -	\$ 1,432,316
Per Pupil Funding Allocation - Facilities	365,456	-	365,456	300,116	-	300,116
Federal Entitlements and Grants	230,261	-	230,261	123,931	-	123,931
Donated Commodities	4,234	-	4,234	4,139	-	4,139
State Government Grants	5,187	-	5,187	13,541	-	13,541
Private Grants and Contributions	500,369	2,500	502,869	490,000	8,000	498,000
Donated Services and Materials	59,685	-	59,685	48,208	-	48,208
Student Program Fees and Other	4,271	-	4,271	5,187	-	5,187
Interest Income	114	-	114	104	-	104
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,000</u>	<u>(8,000)</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>\$ 2,906,651</u>	<u>\$ 2,500</u>	<u>\$ 2,909,151</u>	<u>\$ 2,425,542</u>	<u>\$ -</u>	<u>\$ 2,425,542</u>
<u>Expenses:</u>						
Educational Services	\$ 2,546,886	\$ -	\$ 2,546,886	\$ 2,130,756	\$ -	\$ 2,130,756
General and Administrative	223,643	-	223,643	236,574	-	236,574
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 2,770,529</u>	<u>\$ -</u>	<u>\$ 2,770,529</u>	<u>\$ 2,367,330</u>	<u>\$ -</u>	<u>\$ 2,367,330</u>
Changes in Net Assets	\$ 136,122	\$ 2,500	\$ 138,622	\$ 58,212	\$ -	\$ 58,212
Net Assets at Beginning of Year	<u>232,838</u>	<u>-</u>	<u>232,838</u>	<u>174,626</u>	<u>-</u>	<u>174,626</u>
Net Assets at End of Year	<u>\$ 368,960</u>	<u>\$ 2,500</u>	<u>\$ 371,460</u>	<u>\$ 232,838</u>	<u>\$ -</u>	<u>\$ 232,838</u>

(See Accompanying Notes and Auditor's Report)

HARMONY DC PUBLIC CHARTER SCHOOLS
COMPARATIVE STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	June 30, 2019				June 30, 2018			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Personnel, Salaries and Benefits:</u>								
Executive Leadership Salaries	\$ 181,166	\$ 145,281	\$ 35,885	\$ -	\$ 279,594	\$ 237,481	\$ 42,113	\$ -
Teaching Staff Salaries	918,883	911,894	6,989	-	585,506	585,506	-	-
Student Support Salaries	174,672	174,672	-	-	177,381	177,381	-	-
Office and Administrative Staff	56,712	56,712	-	-	57,772	46,218	11,554	-
Employee Benefits	154,600	149,622	4,978	-	131,358	124,951	6,407	-
Payroll Taxes	111,930	108,326	3,604	-	89,417	85,055	4,362	-
Staff Development Expense	13,447	13,175	272	-	4,999	4,999	-	-
Other Personnel Expenses	29,873	29,778	95	-	14,867	14,272	595	-
Total Personnel, Salaries and Benefits	<u>\$ 1,641,283</u>	<u>\$ 1,589,460</u>	<u>\$ 51,823</u>	<u>\$ -</u>	<u>\$ 1,340,894</u>	<u>\$ 1,275,863</u>	<u>\$ 65,031</u>	<u>\$ -</u>
<u>Direct Student Costs:</u>								
Textbooks	\$ 5,601	\$ 5,601	\$ -	\$ -	\$ 15,396	\$ 15,396	\$ -	\$ -
Student Supplies and Materials	41,151	41,151	-	-	31,079	31,079	-	-
Student Transportation	49,250	49,250	-	-	58,990	58,990	-	-
Food Service	70,429	70,429	-	-	64,918	64,918	-	-
Contracted Instruction	199,396	199,396	-	-	94,737	94,737	-	-
Student Recruiting	16,205	16,205	-	-	11,946	11,946	-	-
Other Student Costs	8,422	8,422	-	-	8,130	8,130	-	-
Total Direct Student Costs	<u>\$ 390,454</u>	<u>\$ 390,454</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,196</u>	<u>\$ 285,196</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Occupancy Costs:</u>								
Rent	\$ 323,126	\$ 316,591	\$ 6,535	\$ -	\$ 322,671	\$ 309,764	\$ 12,907	\$ -
Utilities	46,674	45,730	944	-	38,216	36,687	1,529	-
Contracted Building Services	47,180	46,226	954	-	44,580	42,797	1,783	-
Maintenance and Repairs	10,402	10,192	210	-	27,383	26,288	1,095	-
Janitorial Supplies	2,261	2,215	46	-	1,207	1,159	48	-
Leasehold Amortization	27,237	26,686	551	-	27,238	26,149	1,089	-
Total Occupancy Costs	<u>\$ 456,880</u>	<u>\$ 447,640</u>	<u>\$ 9,240</u>	<u>\$ -</u>	<u>\$ 461,295</u>	<u>\$ 442,844</u>	<u>\$ 18,451</u>	<u>\$ -</u>

(See Accompanying Notes and Auditor's Report)

HARMONY DC PUBLIC CHARTER SCHOOLS
COMPARATIVE STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	June 30, 2019				June 30, 2018			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Office Expenses:</u>								
Office Supplies and Materials	\$ 10,957	\$ 10,735	\$ 222	\$ -	\$ 6,389	\$ 6,133	\$ 256	\$ -
Office Equipment Maintenance	5,988	5,867	121	-	3,272	3,141	131	-
Telephone/Telecommunications	5,771	5,654	117	-	6,121	5,876	245	-
Postage and Shipping	982	962	20	-	1,088	1,044	44	-
Dues and Subscription	<u>6,081</u>	<u>-</u>	<u>6,081</u>	<u>-</u>	<u>5,746</u>	<u>-</u>	<u>5,746</u>	<u>-</u>
Total Office Expenses	<u>\$ 29,779</u>	<u>\$ 23,218</u>	<u>6,561</u>	<u>\$ -</u>	<u>\$ 22,616</u>	<u>\$ 16,194</u>	<u>6,422</u>	<u>\$ -</u>
<u>General Expenses:</u>								
Insurance	\$ 18,098	\$ 11,870	\$ 6,228	\$ -	\$ 16,872	\$ 16,197	\$ 675	\$ -
Authorizer Fee	21,120	17,952	3,168	-	16,911	16,235	676	-
Intellectual Property License	59,685	-	59,685	-	48,208	-	48,208	-
Accounting, Auditing and Payroll	83,760	13,145	70,615	-	77,126	-	77,126	-
Legal Fees	2,070	2,070	-	-	3,178	-	3,178	-
Other Professional Fees	2,488	2,453	35	-	13,189	12,661	528	-
Other Expenses	1,605	963	642	-	3,106	3,106	-	-
Depreciation	48,092	47,120	972	-	65,062	62,460	2,602	-
Interest Expense	<u>15,215</u>	<u>541</u>	<u>14,674</u>	<u>-</u>	<u>13,677</u>	<u>-</u>	<u>13,677</u>	<u>-</u>
Total General Expenses	<u>\$ 252,133</u>	<u>\$ 96,114</u>	<u>\$ 156,019</u>	<u>\$ -</u>	<u>\$ 257,329</u>	<u>\$ 110,659</u>	<u>\$ 146,670</u>	<u>\$ -</u>
Total Functional Expenses	<u>\$ 2,770,529</u>	<u>\$ 2,546,886</u>	<u>\$ 223,643</u>	<u>\$ -</u>	<u>\$ 2,367,330</u>	<u>\$ 2,130,756</u>	<u>\$ 236,574</u>	<u>\$ -</u>

(See Accompanying Notes and Auditor's Report)

HARMONY DC PUBLIC CHARTER SCHOOLS
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 138,622	\$ 58,212
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	75,330	92,300
Accounts Receivable - (Increase)/Decrease	(16,878)	3,716
Grants Receivable - (Increase)/Decrease	14,503	21,485
Prepaid Expenses - (Increase)/Decrease	(6,197)	(8,585)
Accounts Payable - Increase/(Decrease)	(3,387)	11,816
Due to Related Party - Increase/(Decrease)	(32,209)	-
Payroll Taxes and Related Liabilities - Increase/(Decrease)	(11,738)	20,080
Accrued Interest Payable - Increase/(Decrease)	3	101
Accrued Salaries and Leave - Increase/(Decrease)	15,850	(8,466)
Unearned Revenue - Increase/(Decrease)	(638)	(775)
Deferred Rent - Increase/(Decrease)	<u>(19,105)</u>	<u>(9,269)</u>
Net Cash Flows from Operating Activities	<u>\$ 154,156</u>	<u>\$ 180,615</u>
<u>Cash Flows from Financing Activities:</u>		
Payments on Line of Credit	\$ -	\$ (107)
Payments on Capital Lease	<u>(6,148)</u>	<u>(5,900)</u>
Net Cash Flows from Financing Activities	<u>\$ (6,148)</u>	<u>\$ (6,007)</u>
Net Increase in Cash and Cash Equivalents	\$ 148,008	\$ 174,608
Cash and Cash Equivalents at Beginning of Year	<u>377,265</u>	<u>202,657</u>
Cash and Cash Equivalents at End of Year	<u>\$ 525,273</u>	<u>\$ 377,265</u>

Supplemental Disclosures:

- a) Interest in the amount of \$15,212 and \$13,576, respectively, was paid during the years ended June 30, 2019 and 2018.
- b) No income taxes were paid during the years ended June 30, 2019 and 2018.

Non-Cash Activities:

- a) During the year ended June 30, 2018, the Charter School purchased two photocopiers in the amount of \$18,017 by financing through a capital lease.

(See Accompanying Notes and Auditor's Report)

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

The Harmony DC Public Charter Schools (the Charter School), a District of Columbia Not-for-Profit Corporation was incorporated on February 20, 2014, exclusively for educational purposes. The Charter School operates as part of the District of Columbia Public School System. The mission of the Charter School is to prepare students for higher learning in a safe, caring, and collaborative atmosphere through a quality learner-centered educational program with a strong emphasis on science, technology, engineering, and mathematics.

The Charter School's primary sources of support are local appropriations for charter schools from the District of Columbia. The Charter School also receives federal entitlement funding through the Office of the State Superintendent of Education.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the Charter School are summarized below:

(a) Basis of Accounting and Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting, which presents financial position, activities, functional expenses, and cash flows in accordance with accounting principles generally accepted in the United States of America.

(b) Revenue Recognition:

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restriction, if any, on the contribution. An allowance for uncollectible contributions receivable is provided based upon management's judgement, including such factors as prior collection history and type of contribution.

Conditional promises, such as matching grants, are not recognized as revenue until they become unconditional, that is, until all conditions on which they depend are substantially met.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

(b) **Revenue Recognition:** (Continued)

Federal and Charter School Funding

The Charter 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 as well as funding for English as a second language. The Charter 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. Federal entitlements are recognized based on the allowable costs incurred.

Extended Learning Program

The Charter School's school day runs from 8:00 a.m. to 3:50 p.m. Monday through Friday. To provide additional learning opportunities and support the needs of parents and families, the Charter School offers an extended learning program beginning each day at dismissal and running through 6 p.m. The Charter School partnered with the Harry Thomas Sr. Recreation Center to provide after care, free of charge to the student families through the D.C. Department of Parks and Recreation.

(c) **Corporate Taxes:**

The Charter School is exempt from federal and state income taxes (other than on unrelated business income) under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. Exemption from District of Columbia income taxes was granted to the Charter School effective February 20, 2014. Accordingly, no provisions for income taxes have been provided for in the accompanying financial statements. The Charter School has been classified as other than a private foundation under Section 509(a)(1) of the Internal Revenue Code and accordingly contributions qualify as a charitable tax deduction by the contributor under Section 170(b)(1)(A)(ii). The Charter School did not have any net unrelated business income for the years ended June 30, 2019 and 2018.

The Charter School is also exempt from District of Columbia sales and personal property taxes.

(d) **Grants:**

Government Grants

The Charter School receives grants from federal and state governmental agencies for various purposes in the form of exchange transactions. Grant revenues are recognized based on allowable costs incurred. Receivables related to grant awards are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant award. Funds received in advance for these types of grants and those that are unexpended as of year end are reflected as a deferred revenue.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets:

The Charter School reports information regarding its financial position and activities according to two classes of net assets. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of restrictions on use that are placed by the donor. Accordingly, net assets of the Charter School and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions

Net assets without donor restrictions are resources available to support operations and over which the Board of Trustees has discretionary control. The only limits on the use of these net assets are the broad limits resulting from the Charter School's purpose, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements that are entered into in the course of its operations.

From time to time, the Board of Trustees designates a portion of the Charter School's unrestricted net assets for purposes that are of importance to the organization.

Net Assets with Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature whereby the Charter School must continue to use the resources in accordance with the donor's instructions.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service, unless the donor provides more specific directions about the period of its use. There were no net assets with donor restrictions available at year end.

Net assets with donor restrictions were available at year end for the following purposes:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
STEM - Purchase of 3D Printer	\$ <u>2,500</u>	\$ <u>-</u>
Total Net Assets Available	\$ <u><u>2,500</u></u>	\$ <u><u>-</u></u>

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, the passage of time, or by the occurrence of other events specified by donors for the following programs:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Board Recruitment	\$ -	\$ 8,000
Total Net Assets Released from Restrictions	\$ -	\$ 8,000

(f) Donated Services and Materials:

Donated services and materials are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. The time contributed by the Charter School's Board of Trustees is uncompensated and is not reflected as donated services.

In-kind contributions are recorded in the statement of activities at estimated fair value and recognized as revenue and expense in the period they are received, except for donated fixed assets, which are recorded as revenue in the period received and the asset depreciated over its estimated useful life.

The estimated value of donated services has been recorded in the financial statements as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Intellectual Property License	\$ 59,685	\$ 48,208
Total	\$ 59,685	\$ 48,208

(g) Basic Programs:

Harmony Public Charter Schools' Science, Technology, Engineering, and Math (STEM) Program aims to prepare each student for higher education with a strong emphasis on Science, Technology, Engineering, and Mathematics. The program provides curriculum, instructional resources, and professional development for STEM teachers. Harmony STEM program is a part of Harmony Public Charter Schools' Academic Department that involves a team of curriculum specialists, instructional coaches, and lead teachers in Harmony Public Schools System.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

Harmony STEM program has the following components:

- Project Based Learning Program (PBL): Harmony provides curriculum, instructional resources, and PBL training to the teachers. Instructional administrators and STEM coordinator support teachers on site to assist the implementation of PBL.
- Professional Development: Harmony believes that content-focused professional development is a critical need to ensure the quality of teaching science and mathematics. Our STEM training model has two major components; the mastery of content knowledge and delivery of the content with effective instructional practices.
- STEM Culture: The department also provides strategies and resources for schools to build STEM school atmosphere connecting the students to higher education. We design a variety of opportunities for students to take STEM education “beyond the classroom” and see how today’s instruction connects to career and lifelong learning.

APPROACH

We are known for our project-based, hands-on approach to learning. Our approach is born out of the belief that kids learn best by exploring, discovering, and collaborating in carefully matched small groups. This is equally true in science and math as it is in English literature or art.

This constructivist approach is a lot like tinkering. It encourages students to draw connections between disciplines and build on their previous experience. It gives them the time and space to test their ideas and to figure out how things in the world work. It shows them that you have to fail a lot in order to learn and that failure is at the heart of innovation and invention. This is the way 21st century skills are built.

We believe that our small classrooms and collaborative learning style create an inviting, safe, and purposeful environment where students thrive. Walk into any classroom and you will see children peacefully solving their conflicts with the loving support of our dedicated teachers. Our behavioral expectations are clear and our students happily rise to meet them. Harmony’s friendly and respectful atmosphere is contagious and carries on well after school is over.

School has an extended day model. Students receive extra 5 hours of Math and ELA instruction weekly. Teachers are able to deliver data-driven, individualized, center-based instruction. Math and reading interventionists are able to meet academically struggling students twice a week in small groups or one-on-one to give intensive academic support to the students.

ASSESSMENT

We use Amplify’s DIBELS NEXT and Reading 3D, NWEA’s MAP, Achievement Network (ANet), and i-READY assessments to measure student growth and grade-level proficiency in math, reading, and language usage, taking a baseline at the beginning of the year and one at mid-terms. Progress monitoring assessments are used once a month to track student achievement more closely. The resulting data gives our teachers essential information about what each student knows so that they can create tutoring rosters, small groups, and targeted instructional plans to reinforce, develop, or introduce specific skills and concepts.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

PROFESSIONAL DEVELOPMENT

Continuous and embedded professional development is the key for raising student achievement and we take it seriously at Harmony. Every Wednesday afternoon our teachers collaborate in a Professional Learning Community (PLC) to share their struggles and what works in a focused and powerful way. Outside of the formal PLC structure, our teachers share their planning periods every day. Informally, you will often see our teachers working together after school into the evening hours.

Customizable professional learning maps are built-in online to our math, English language arts, and science curricula. It allows teachers to reflect on and take control of their own PD, building content knowledge and instructional capacity that they can take directly to the classroom.

(h) Functional Expense Allocation Policies and Procedures:

The statement of functional expenses presents an allocation of each expense category between program services, general and administrative, and fundraising activities. Program service costs consist of those expenses incurred to fulfill the Charter School's mission of providing an educational foundation for preschool children. General and administrative costs pertain to supporting activities. Fundraising expenses relate to fundraising activities such as generating contributions and seeking unsolicited financial support and grants.

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

Expenses that can be identified with a specific program or support service are charged directly to the program or support service. The Charter School has established a method to specifically identify and record those costs that are considered to be direct student expenses. Such program expenses consist of contracted student instruction, food service, student events, student transportation and textbooks. In addition, depreciation of assets has been reflected as a direct program cost because these costs relate solely to the purchasing of assets for education services.

Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Personnel expense for salaries, payroll taxes and employee benefit plans are allocated based on estimated amounts of time spent on particular activities.
- Costs of professional fees, legal and accounting, dues and fees, and other similar expenses are allocated based on the underlying use of these costs by various programs determined by management and evaluated annually.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(m) Change in Accounting Principles: (Continued)

- Certain staff expenses including staff development, staff recruiting, and staff events are generally allocated between general and administrative and program functions based on estimated amounts of time spent on particular activities by utilizing a full-time employee equivalency calculation.
- Shared costs (office supplies, telephone, equipment rental, postage and computer expense) are allocated based on estimated amounts of time spent on particular activities by utilizing a full-time employee equivalency calculation.
- Costs for facilities such as rent, utilities, maintenance and repairs are allocated based on estimated amounts of time spent on particular activities by utilizing a full-time employee equivalency calculation.

(i) 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, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Recognition of Salary Expense:

Salary expense is recognized in the year the service is rendered, which coincides with the academic year. Salaries unpaid at June 30 are recognized as expense and accrued salaries.

(k) Fair Value of Certain Financial Instruments:

Some of the Charter School's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such accounts include cash, accounts receivable, prepaid expenses, accounts payable, and accrued expenses.

(l) Change in Accounting Principles:

The Charter School implemented Financial Accounting Standard Board (FASB) ASU No. 2016-14 "Presentation of Financial Statements of Not-for-Profit Entities" in the current year, applying the changes retrospectively. The new standard changes the following aspects of the financial statements:

- The previously reported temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(l) Change in Accounting Principles: (Continued)

- The format of the statements of activities has been changed to present columns for both activities with donor restrictions and activities without donor restrictions as management believes this better reports changes in the Charter School's changes in financial position arising from its activities.
- The schedule of functional expenses is included as a component of the financial statements.
- The financial statements include a disclosure about liquidity and availability of resources.

The changes had no effect on net assets at July 1, 2018.

2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS:

The following reflects the Charter School's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

The Charter School has certain donor-restricted net assets that are considered to be available for general expenditures, because the restrictions on the net assets are expected to be met by conducting the normal activities of the programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year.

	<u>June 30, 2019</u>
Financial Assets at Year End:	
Cash and Cash Equivalents	\$ 525,273
Accounts Receivable	25,685
Grants Receivable	<u>13,486</u>
Total Financial Assets	<u>\$ 564,444</u>
Less Amounts Not Available for General Expenditure Within One Year:	\$ <u>-</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 564,444</u>

As part of the Charter School's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations come due.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

3. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in the Charter School'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 Harmony DC Public Charter Schools performed an evaluation of uncertain tax positions for the year ended June 30, 2019, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2019, the statute of limitations for tax years 2015 through 2017 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Charter School files tax returns. It is the Charter School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2019, the Charter School had no accruals for interest and/or penalties.

4. CASH AND CASH EQUIVALENTS:

The carrying amount of cash and cash equivalents at year end consisted of the following:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Checking Account - Non-interest Bearing	\$ 522,343	\$ 367,729
Money Market	<u>2,930</u>	<u>9,536</u>
Total	<u>\$ 525,273</u>	<u>\$ 377,265</u>

For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with original maturities of three months or less.

The Charter School maintains its operating funds in various financial institutions in the form of a non-interest bearing business checking and a money market. These accounts are covered under the Federal Deposit Insurance Corporation (FDIC) Program. Federal Deposit Insurance Corporation insurance coverage is \$250,000 per banking institution, as well as account category. Deposits held in non-interest-bearing transaction accounts are aggregated with interest-bearing deposits and the combined total is insured up to \$250,000.

As of June 30, 2019 and 2018, \$272,343 and \$117,729, respectively, of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. Due to increased cash flows at certain times during the year, the amount of funds at risk may have been greater than at year end. The Charter School was at risk for the funds held in excess of the insured amounts. The Charter School has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

5. **ACCOUNTS, GRANTS AND PROMISES RECEIVABLE:**

Accounts and Grants Receivable

Accounts and grants receivable are current and considered to be fully collectible by management. Balances at June 30, 2019 and 2018 consisted of the following:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Accounts Receivable</u>		
Per Pupil Funding	\$ 25,685	\$ 8,807
Total	<u>\$ 25,685</u>	<u>\$ 8,807</u>
<u>Grants Receivable</u>		
National School Lunch Program	\$ 8,395	\$ 14,043
Schoolwide Entitlement Funds	4,298	11,725
State Healthy Schools Act	728	722
Individuals with Disabilities Education Act (IDEA 611)	65	209
Special Education Enhancement	<u>-</u>	<u>1,290</u>
Total	<u>\$ 13,486</u>	<u>\$ 27,989</u>

The Charter School's accounts and grants receivable consists of unsecured amounts due from funding sources whose ability to pay is subject to changes in general economic conditions. Because the Charter School does not require collateral, it is at credit risk for amounts owed to it through the year and at year end.

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or grants receivable. Management believes that an allowance was not required, based on its evaluation of collectability of receivables for the years ended June 30, 2019 and 2018.

Trade receivables related to program service fees are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Credit is extended for a period of 60 days with no interest accrual at which time payment is considered delinquent. Trade receivables are written off as uncollectable once management determines that available collection efforts have been exhausted.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

5. **ACCOUNTS, GRANTS AND PROMISES RECEIVABLE:** (Continued)

Promises Receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Charter School. The Charter School uses the allowance method to determine uncollectible promises to give.

6. **FIXED ASSETS:**

Furniture and equipment are recorded at cost, or in the case of contributed property at the fair market value at the date of contribution. If an expenditure in excess of \$1,000 results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated over the estimated useful lives of the assets. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements have been amortized over the term of the rental lease agreement. Depreciation and amortization expense for the years ended June 30, 2019 and 2018, was \$75,330 and \$92,300, respectively. Maintenance and repairs are charged to expenses as incurred. Major classifications of fixed assets and their estimated useful lives are as summarized below:

June 30, 2019

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Amortization and Depreciation</u>	<u>Net Book Value</u>
Computer Equipment	3 Years	\$ 114,241	\$ 114,146	\$ 95
Furniture and Equipment	3-5 Years	<u>155,914</u>	<u>136,832</u>	<u>19,082</u>
Total Fixed Assets		<u>\$ 270,155</u>	<u>\$ 250,978</u>	<u>\$ 19,177</u>

June 30, 2018

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Amortization and Depreciation</u>	<u>Net Book Value</u>
Computer Equipment	3 Years	\$ 124,069	\$ 109,766	\$ 14,303
Furniture and Equipment	3-5 Years	157,413	104,447	52,966
Leasehold Improvements	60 Months	<u>121,569</u>	<u>94,331</u>	<u>27,238</u>
Total Fixed Assets		<u>\$ 403,051</u>	<u>\$ 308,544</u>	<u>\$ 94,507</u>

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

7. DEFERRED RENT:

Accounting principles generally accepted in the United States of America require that rent expense, pursuant to a non-cancelable lease including a rent abatement period and/or fixed scheduled rent increases, be recorded on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent abatement in the accompanying statement of financial position.

The Charter School entered into a lease agreement for the rental of office space located in Washington, DC, for five years, commencing on July 1, 2014, and expiring on June 30, 2019. In the first year of the rental lease agreement, total rent of \$180,000 was deferred to future years. In addition, there was an annual escalation clause of three percent (3%). Accordingly, at the time of lease commencement, \$198,548 of future rent payments were recorded as a liability to adjust the actual rent paid to conform to the straight-line basis. The balance of the unamortized deferred rent abatement at June 30, 2018 was \$19,105. Because this lease expired on June 30, 2019, there is no remaining unamortized deferred rent.

8. CAPITAL LEASE PAYABLE:

On August 21, 2014, the Charter School entered into a capital lease for the purchase of two CopyStar photocopiers. The total amount financed on the capital lease was \$22,442 payable over thirty-six (36) months with a monthly payment of \$685. Maturity was scheduled for August 21, 2017. Interest expense was \$14 for the year ended June 30, 2018 using an implicit rate of 6.00%. The lease was secured by the photocopiers that cost \$22,442 and was presented as part of the carrying balance of fixed assets. For the year ended June 30, 2018, depreciation expense in the amount of \$1,246 on the photocopiers was included in depreciation expense. These copiers were taken out of service during the year ended June 30, 2018 at the time two new copiers were obtained through a new capital lease.

On August 1, 2017, the Charter School entered into a capital lease for the purchase of two CopyStar photocopiers. The total amount financed on the capital lease was \$18,017 payable over thirty-six (36) months with a monthly payment of \$540. Maturity is scheduled for August 31, 2019. Interest expense was \$552 and \$639, respectively, for the years ended June 30, 2019 and 2018 using an implicit rate of 5.00%. The lease is secured by the photocopiers that cost \$18,017 and is presented as part of the carrying balance of fixed assets. For the years ended June 30, 2019 and 2018, depreciation expense in the amount of \$6,006 and \$5,005, respectively, on the photocopiers has been included in depreciation expense. Accumulated depreciation at June 30, 2019 and 2018 was \$11,011 and \$5,005, respectively. The balance of the capital lease debt was \$7,329 and \$13,477 at June 30, 2019 and 2018, respectively.

The Charter School is committed under this capital lease to make future minimum payments as follows:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 6,480	\$ 6,256	\$ 224
2021	<u>1,080</u>	<u>1,073</u>	<u>7</u>
Total Future Minimum Lease Payments	<u>\$ 7,560</u>	<u>\$ 7,329</u>	<u>\$ 231</u>

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

9. LINE OF CREDIT:

On November 14, 2014, the Charter School entered into a revolving Line of Credit arrangement with East West Bank for a total authorized amount of \$500,000 and a maturity date of November 14, 2015. The Line of Credit has been extended through January 14, 2021. This line bears interest at a variable rate of the Wall Street Journal Prime Rate plus 2.0 percentage points over prime. This Line of Credit is collateralized by the inventory, equipment, and accounts including an assignment of government grants, and facility fees and per-pupil funding from the District of Columbia. In addition, the Charter School has granted a security interest to the financial institution in the form of a money market account maintained at this bank which required an initial deposit of \$19,000 to cover interest payments. Total interest expense incurred on this Line of Credit for the years ended June 30, 2019 and 2018 was \$14,662 and \$13,024, respectively. The balance of the Line of Credit at June 30, 2019 was \$198,103 with an effective interest rate of 7.50%. The balance of the Line of Credit at June 30, 2018 was \$198,103 with an effective interest rate of 7.00%.

10. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

The Charter School was approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The District of Columbia Public Charter School Board (DCPCSB) is responsible for the ongoing oversight of the Charter School's fiscal management and academic acceptability. The contract dated July 1, 2014, provides for a 15-year charter effective the date of first operation. If not renewed, the charter contract will expire on or about July 1, 2029. The charter contract may be renewed for successive 15-year periods if the DCPCSB deems that the Charter School is in compliance with its charter contract and District statutory provisions. In addition, in accordance with the Charter School Act, the DCPCSB is required to review Harmony DC's charter every five years. On November 19, 2018, the schools' first five-year charter review was conducted, and the board voted to extend the charter of Harmony DC for an additional five-year period, subject to certain conditions that must be met in each of ensuing three fiscal school years. The DCPCSB may revoke (or not renew) a charter school contract if a school violates applicable law, materially violates the charter contract or fails to meet the student academic achievement expectations set forth in the charter contract. Consequently, management does not anticipate non-renewal or revocation of its charter.

As part of the agreement with the DCPCSB, the Charter School may be charged a public charter school fee, which is not to exceed one percent (.9% for the 18/19 and 17/18 school years) of the total revenues (less philanthropic and investment revenues) within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the Board. For the years ended June 30, 2019 and 2018, the Charter School incurred \$21,120 and \$16,911, respectively, in administrative fees.

The charter contract provides that the Charter School may educate up to a predetermined number of students. However, this enrollment limit may be raised upon notification to and acceptance by the DCPCSB. The Charter School enrollment ceiling for the year ended June 30, 2019, was not permitted to be greater than 480 students. Audit enrollment for the 2018/2019 year was 112 students. Audit enrollment for the 2017/2018 year was 94 students.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

11. PER-PUPIL FUNDING ALLOCATION:

The Charter School receives local funding from the District of Columbia in the form of per-pupil educational allotments and facility allowances. This funding is based on the equivalent number of full-time students and is determined annually. For the year ended June 30, 2019, the per-student rate ranged from \$10,658 to \$13,855 for the educational allotment and \$3,263 for the facility allotment. For the year ended June 30, 2018, the per-student rate ranged from \$10,257 to \$13,744 for the education allotment and \$3,193 for the facility allowance. Additional allotments were made for Special Education Services. Per-pupil funding for the years ended June 30, 2019 and 2018 was as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Grade Level - Kindergarten to Grade 5	\$ 1,228,867	\$ 991,853
Facilities Allotment	365,456	300,116
Special Education	311,099	277,817
At-Risk Students	181,441	134,777
English as a Second Language	15,667	-
Teachers Collective Bargaining	<u>-</u>	<u>27,869</u>
Total	<u>\$ 2,102,530</u>	<u>\$ 1,732,432</u>

12. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2019 and 2018, the Charter School participated in the following federal awards programs:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
NCLB - Entitlement Funds (Title I)	\$ 67,047	\$ 42,251
Scholarships for Opportunity and Results Act (SOAR)	60,683	-
National School Lunch Program	44,800	56,296
NCLB - Entitlement Funds (Title II)	25,394	9,052
Individuals with Disabilities Education Act (IDEA)	20,313	8,342
NCLB - Entitlement Funds (Title IV)	12,024	7,990
Donated Commodities	<u>4,234</u>	<u>4,139</u>
Total	<u>\$ 234,495</u>	<u>\$ 128,070</u>

Federal formula grants are allocations of money to states or their subdivisions in accordance with distribution formulas prescribed by law or administrative regulation, for activities of a continuing nature not confined to a specific project.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12. FEDERAL ENTITLEMENTS AND GRANTS: (Continued)

The Charter School receives federal formula grants under the provisions of the No Child Left Behind Act (NCLB) of 2001, P.L 107-110. NCLB funds are not intended to replace state or local educational funding. Rather, NCLB funds provide additional support to states, LEAs, and schools for specific purposes. Grants are provided by the U.S. Department of Education and passed through the District of Columbia Office of the State Superintendent of Education.

The National School Lunch Program and School Breakfast Program are part of the child nutrition cluster of programs operated by the U.S. Department of Agriculture. The objectives of the child nutrition cluster programs are to: (1) assist states in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential childcare institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

13. COMMITMENTS:

School Space - St. Martin of Tours Parish

The Charter School entered into a lease agreement on June 16, 2014, for the rental of a school building located at 62 T Street, NE, Washington, DC 20002. The lease term commenced on July 1, 2014, and expired on June 30, 2019. In the first year of the lease through June 30, 2015, required rent payments in the amount of \$180,000 were deferred by the landlord to future years. There is a 3% escalation clause each of the five years of the lease term. Monthly rental payments of \$5,000 were made during the months of March 2015 through June 30, 2015. Effective July 1, 2016, monthly rental payments of \$34,023 were required. As a requirement of this lease, a security deposit in the amount of \$100,000 was required to be made. Rental expense related to this lease for the years ended June 30, 2019 and 2018, was \$318,548 for each year.

As a provision of this lease agreement, the Charter School exercised the option to renew the rental lease agreement for an additional two (2) year period through June 30, 2021. Per the amended lease agreement, the Charter School has the option to extend this lease by one more period of two (2) years. This rental lease agreement, which becomes effective on July 1, 2019, calls for initial monthly payments of \$28,982 with a 3% rent escalation on July 1, 2020.

As of June 30, 2019, future minimum rental obligations required under this lease, net of rent abatement are as follows:

<u>Year Ending June 30,</u>	<u>Rent Obligation</u>	<u>Deferred Rent</u>	<u>Rent Payment</u>
2020	\$ 353,001	\$ (5,217)	\$ 347,784
2021	<u>353,001</u>	<u>5,217</u>	<u>358,218</u>
Totals	<u>\$ 706,002</u>	<u>\$ -</u>	<u>\$ 706,002</u>

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

14. CONCENTRATIONS:

Revenues

The Charter School receives public funds from the District of Columbia Government based on the number of students they enroll according to the Uniform Per Student Funding Formula developed by the Mayor and City Council. This per pupil allocation is supplemented with extra funds for students with special needs. During the years ended June 30, 2019 and 2018, seventy-four percent (74%) and seventy-three percent (73%), respectively, of total support excluding donated services was received from the District of Columbia in the form of per pupil funding. In addition to the revenue received through the Uniform Per Student Funding, the Charter School receives state and federal grants awarded under the auspices of the U.S. Department of Education (No Child Left Behind and special education), as well as the U.S. Department of Agriculture (Child Nutrition). The Charter School is entitled to receive these funds by virtue of its recognition as a Local Education Agency by the District of Columbia Public Charter School Board (DCPCSB).

The Charter School is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, the Charter School must compete for students against the DC Public School system as well as other DC Public Charter Schools.

15. CONTINGENCIES:

The Charter School was granted its initial 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 Charter 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 Charter School's ability to finance ongoing operations.

The Charter 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 prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of grants and contributions to the Charter School. While the Charter School's Board of Trustees and management believes the Charter 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.

Laws and regulations governing charter schools are complex and subject to interpretation. The Charter School receives funding from various federal and state grant reimbursement programs, which are governed by various rules and regulations of the respective grantor agencies. To the extent that the Charter School has not complied with the rules and regulations governing the grants, refunds of any money received may be required. The Charter School believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The viability of public charter schools and funding for these schools is dependent on the consensus of current and future administration of the District of Columbia. Any future change in dynamics could adversely affect the operations of public charter schools.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

16. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 27, 2019, the date the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

17. RELATED PARTY TRANSACTIONS:

Organization Structure

As enacted by the Articles of Incorporation, Harmony DC Public Charter Schools has a sole member with voting rights as well as other rights and privileges as authorized by its governing documents. The sole member is Harmony Public Schools, a separately incorporated Texas not-for-profit 501(c)(3) organization that operates multiple charter schools. The Chief Executive Officer and Superintendent of Schools for Harmony Public Schools was the board chair of Harmony DC Public Charter Schools through November 10, 2018.

License Fee

Harmony Public Schools own trademarks, licensed marks and other intellectual property that are being utilized by Harmony DC Public Charter Schools. In exchange for the use of this property, a license agreement was entered into on July 1, 2014, between the two organizations for a five-year period. According to the terms of the license agreement, the Charter School is required to pay an annual license fee to Harmony Schools at a rate of five (5) percent of the annual base per pupil funds paid to the Charter School. During the years ended June 30, 2019 and 2018, this license fee was abated. An amount of \$59,685 and \$48,208, respectively, was recognized as a donated license fee for the years ended June 30, 2019 and 2018.

School Services Agreement

Harmony Public Schools offers services that are an integral part of Harmony DC's charter school operations and activities. Given the structural relationship between the two organizations, effective July 1, 2014, Harmony Public Schools entered into a School Services Agreement with Harmony DC Public Charter Schools for a five-year period expiring on June 30, 2019. Services offered include education technology services, data network solutions, teacher and leadership coaching, and human resource and financial services. As of June 30, 2018, an amount of \$32,209 was owed to Harmony Public Schools for both school services and reimbursable expenses.

Board of Trustees

The Chief Executive Officer of Harmony Schools served as board chair for Harmony DC Public Charter Schools through November 10, 2018. At that time, the Chief Advancement Officer from Harmony Schools was elected to serve as a member of the Board of Trustees of Harmony DC.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

17. RELATED PARTY TRANSACTIONS: (Continued)

Board of Trustees (Continued)

Two of the board members appointed to serve on the Board of Trustees are parents of students attending the Charter School. Parent trustees are elected by a majority vote of the board members from a list of qualified individuals submitted to the board.

Supporting Organization

Harmony Education Foundation was recognized as an exempt organization on April 10, 2015, for the purpose of serving as a Type I supporting organization within the meaning of 509(a)(3) of the Internal Revenue Code. As a supporting organization, Harmony Education Foundation operates and conducts its own activities for the benefit of both the Harmony Public Schools and the Riverwalk Education Foundation. Specifically, the purpose of Harmony Education Foundation is to support charter schools and educational organizations in order to (i) promote education by developing models, educational services, and products for the purposes of the Harmony Public School model; (ii) facilitate charter school campus development projects, including design, financing and leasing; (iii) facilitate the attainment of higher education by providing college tuition assistance in the form of scholarships and grants for charter school graduates; and (iv) foster and promote scientific advancement by conducting and overseeing the operation of STEM education and science fairs.

Harmony Education Foundation is currently governed by a Board of Trustees consisting of three (3) members represented by an independent director from Harmony Education Foundation, as well as an appointed director from both Harmony Public Schools and the Riverwalk Education Foundation.

Grant revenues recognized in the financial statements of Harmony DC Public Charter Schools during the years ended June 30, 2019 and 2018 from Harmony Education Foundation were \$500,000 and \$490,000, respectively, for the purpose of assisting in its turnaround program. In addition to the cumulative receipts of \$990,000, the board of Harmony Education Foundation made an additional conditional commitment of \$1,010,000 to be utilized over the next two fiscal school years. As of June 30, 2019, this conditional promise was not recognized as an asset of the Charter School since the condition upon which the promise was made has not yet been met.

18. RETIREMENT PLAN:

401(k) Profit Sharing Plan

The Charter School provides pension benefits for its employees through a defined contribution 401(k) retirement plan which is currently administered by ADP. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Provisions of the plan allow for employees to contribute up to the statutory limits set by the Internal Revenue Code. All employees are eligible to participate upon hiring.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

18. **RETIREMENT PLAN:** (Continued)

401(k) Profit Sharing Plan (Continued)

The Charter School is required to make employer non-elective safe harbor contributions of 3% of annual employee compensation. Participants are 100% vested in their contributions and the 3% employer safe harbor contribution. There is no unfunded past service liability. In addition, there is a discretionary profit-sharing contribution determined on an annual basis that becomes fully vested after five years of service. There were no profit-sharing contributions during the years ended June 30, 2019 and 2018. Safe harbor employer contributions for the years ended June 30, 2019 and 2018, were \$38,795 and \$32,580, respectively.

19. **EMPLOYEE BENEFITS:**

The cost of fringe benefits incurred for the years ended June 30, 2019 and 2018 consisted of the following:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Social Security/Medicare	\$ 99,524	\$ 81,603
Health Insurance	105,962	87,132
Life and Disability Insurance	6,460	5,623
Retirement	38,795	32,580
Unemployment	9,800	7,814
Paid Leave Tax	2,606	-
Workers Compensation	<u>3,383</u>	<u>6,023</u>
Total	<u>\$ 266,530</u>	<u>\$ 220,775</u>

Flexible Benefits Plan

The Charter School adopted a Section 125 Flexible Benefits Plan (Cafeteria Plan). Under this plan, employees are permitted to use pre-tax benefit dollars through payroll deduction to pay for medical premiums.

20. **CONSOLIDATION:**

Management has applied principles of FASB ASC 958-810, *Reporting of Related Entities by Not-for-Profit Organizations*, in assessing the need to consolidate the financial statements of Harmony DC Public Charter Schools with those of Harmony Public Schools. Under FASB ASC 958-810, consolidation should occur if both an economic interest between the organizations and control (such as ownership or a majority of common board members) exists. Harmony Public Schools is the sole member/owner of Harmony DC Schools. Based on the criteria stipulated in the pronouncement, management has determined that financial statement consolidation is appropriate. The financial statements of Harmony DC Public Charter Schools have been included in the separately issued financial statements of Harmony Public Schools.

Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Trustees
Harmony DC Public Charter Schools
62 T Street, NE
Washington, DC 20002

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*

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 Harmony DC Public Charter Schools (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Harmony DC Public Charter Schools' 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 Harmony DC Public Charter Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Harmony DC Public Charter Schools' 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 organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 27, 2019

HARMONY DC PUBLIC CHARTER SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings in the prior year.

HARMONY DC PUBLIC CHARTER SCHOOLS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

I. Summary of Auditor's Results

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of the Harmony DC Public Charter Schools were prepared in accordance with generally accepted accounting principles.
- b. No significant deficiencies relating to the audit of the financial statements have been reported.
- c. No instances of noncompliance material to the financial statements of the Harmony DC Public Charter Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

II. Findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*

There were no findings in the current year.

HARMONY DC PUBLIC CHARTER SCHOOLS
SCHEDULE OF CONTRACTS AWARDED IN EXCESS OF \$25,000
UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2019

<u>Vendor Name</u>	<u>Services Provided</u>	<u>Value</u>	<u>Conflict of Interest</u>
Archdiocese of Washington	Building Lease	337,653	no
Align Staffing	Substitute Teacher Services	147,828	no
DC Healthlink	Medical Insurance	125,473	no
End to End Solutions	Special Education Services	69,244	no
Revolution Foods	Student Food Services	66,264	no
EdOps	Bookkeeping Services	52,100	no
A&M Bus Services	Student Transportation	48,950	no
Latin Cleaning Services	Janitorial Services	44,000	no