

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

**Financial Statements
Together with Reports of Independent Public Accountants**

For the Years Ended June 30, 2019 and 2018



S B & COMPANY, LLC
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JUNE 30, 2019 AND 2018

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

Report on the Financial Statements

We have audited the accompanying statements of financial position of the Howard University Public Charter Middle School of Mathematics and Science (the School) as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, 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 controls 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the auditing standards established pursuant to the District of Columbia School Reform Act, Public law No. 104-134, 110 Stat. 1321-121, 2204(c)(11)(B)(ix)(1996); D.C. Official Code 38-1802.04(ii)(B)(2001, as amended). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School 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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of vendors contracted for services in excess of \$25,000, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, although not a part of the basic financial statements, is required by the District of Columbia Public Charter School Board, and has not been subjected to the auditing procedures applied in the audits of the basic 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 22, 2019, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Washington, DC
November 22, 2019

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

**Statements of Financial Position
As of June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 1,380,350	\$ 1,810,482
Investments	1,006,253	-
Federal grants receivable	34,735	66,438
Other grants and contributions receivable	568,139	500,000
Prepaid expenses and other assets	44,615	27,955
Total current assets	<u>3,034,092</u>	<u>2,404,875</u>
Equipment, net	90,965	36,426
Total Assets	<u>\$ 3,125,057</u>	<u>\$ 2,441,301</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 67,221	\$ 86,137
Accrued expenses	377,505	370,029
Total Current Liabilities	<u>444,726</u>	<u>456,166</u>
Net Assets		
Without donor restrictions	2,680,331	1,860,135
With donor restrictions	-	125,000
Total Net Assets	<u>2,680,331</u>	<u>1,985,135</u>
Total Liabilities and Net Assets	<u>\$ 3,125,057</u>	<u>\$ 2,441,301</u>

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

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

**Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
NET ASSET WITHOUT DONOR RESTRICTIONS		
Revenue and Support:		
Per pupil allocation	\$ 4,155,396	\$ 4,007,308
DC facilities allowance	923,429	887,578
Federal entitlements	319,406	371,467
Federal grants	103,853	75,376
Grants and contributions	1,007,410	1,013,507
Other, net	105,982	122,481
Satisfaction of restriction	125,000	100,000
Total Revenue	<u>6,740,476</u>	<u>6,577,717</u>
Donated facilities	1,009,000	1,009,000
Total Revenue and Support	<u>7,749,476</u>	<u>7,586,717</u>
Expenses		
Program Services	6,296,694	6,483,227
Supporting Services:		
General and administrative	506,070	525,344
Fundraising	126,516	328,339
Total Supporting Services	<u>632,586</u>	<u>853,683</u>
Total Expenses	<u>6,929,280</u>	<u>7,336,910</u>
Change in Net Assets Without Donor Restrictions	<u>820,196</u>	<u>249,807</u>
Change in Net Assets With Donor Restrictions		
Contributions	-	125,000
Satisfaction of restriction	(125,000)	(100,000)
Change in Net Assets With Donor Restrictions	<u>(125,000)</u>	<u>25,000</u>
Changes in net assets	695,196	274,807
Net assets, beginning of year	1,985,135	1,710,328
Net Assets, End of Year	<u>\$ 2,680,331</u>	<u>\$ 1,985,135</u>

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

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

**Statement of Functional Expenses
For the Year Ended June 30, 2019, with Comparative Totals for 2018**

	2019				2018
	Program Services	General and Administrative	Fundraising	Total	Total
SALARIES, TAXES AND BENEFITS					
Salaries	\$ 3,276,127	\$ 291,211	\$ 72,803	\$ 3,640,141	\$ 3,707,058
Employee benefits	420,801	37,405	9,351	467,557	519,295
Payroll taxes	298,093	26,497	6,624	331,214	332,600
Travel	4,495	400	99	4,994	8,041
Professional development	81,409	7,236	1,809	90,454	143,358
Total salaries, taxes and benefits	<u>4,080,925</u>	<u>362,749</u>	<u>90,686</u>	<u>4,534,360</u>	<u>4,710,352</u>
DIRECT STUDENT COSTS					
Contracted instructional services	149,336	-	-	149,336	156,302
Educational supplies and materials	283,355	-	-	283,355	426,119
Food service/catering	154,587	-	-	154,587	172,965
Other student costs	10,021	-	-	10,021	5,294
Transportation	-	-	-	-	3,188
Student assessment materials	6,106	-	-	6,106	6,242
Total direct student costs	<u>603,405</u>	<u>-</u>	<u>-</u>	<u>603,405</u>	<u>770,110</u>
OCCUPANCY EXPENSES					
Rent	908,100	80,720	20,180	1,009,000	1,009,000
Maintenance and repairs	12,728	1,131	283	14,142	30,702
Building supplies/materials	21,331	1,896	474	23,701	12,256
Contracted building services	106,236	9,443	2,361	118,040	29,638
Total occupancy expenses	<u>1,048,395</u>	<u>93,190</u>	<u>23,298</u>	<u>1,164,883</u>	<u>1,081,596</u>
OFFICE EXPENSES					
Office supplies and materials	41,820	3,717	929	46,466	67,161
Office equipment rental and maintenance	38,219	3,397	849	42,465	30,391
Telephone/telecommunications	38,259	3,401	850	42,510	25,839
Printing and copying	1,624	144	36	1,804	1,890
Postage and shipping	2,832	252	63	3,147	549
Computer and related	22,742	2,022	505	25,269	96,073
Memberships and subscriptions	31,224	2,775	694	34,693	46,288
Other office expenses	27,311	2,428	606	30,345	16,423
Total office expenses	<u>204,031</u>	<u>18,136</u>	<u>4,532</u>	<u>226,699</u>	<u>284,614</u>
GENERAL EXPENSES					
Insurance	23,800	2,116	528	26,444	21,611
Administration fee	23,202	2,062	516	25,780	49,576
Depreciation	39,887	3,546	887	44,320	90,775
Fees and licenses	19,778	1,758	440	21,976	11,365
Professional fees	177,189	15,750	3,938	196,877	210,437
Website maintenance	7,677	682	171	8,530	-
Advertising and marketing costs	36,772	3,269	817	40,858	62,140
Other general expense	31,633	2,812	703	35,148	44,334
Total general expenses	<u>359,938</u>	<u>31,995</u>	<u>8,000</u>	<u>399,933</u>	<u>490,238</u>
Total Expenses	<u>\$ 6,296,694</u>	<u>\$ 506,070</u>	<u>\$ 126,516</u>	<u>\$ 6,929,280</u>	<u>\$ 7,336,910</u>

The accompanying notes are an integral part of this financial statement.

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

**Statement of Functional Expenses
For the Year Ended June 30, 2018**

	2018			
	Program Services	General and Administrative	Fundraising	Total
SALARIES, TAXES AND BENEFITS				
Salaries	\$ 3,225,140	\$ 296,565	\$ 185,353	\$ 3,707,058
Employee benefits	451,786	41,544	25,965	519,295
Payroll taxes	289,363	26,608	16,629	332,600
Travel, net of allowance of \$0 in 2015	6,996	643	402	8,041
Professional development	124,721	11,469	7,168	143,358
Total salaries, taxes and benefits	<u>4,098,006</u>	<u>376,829</u>	<u>235,517</u>	<u>4,710,352</u>
DIRECT STUDENT COSTS				
Contracted instructional services	156,302	-	-	156,302
Educational supplies and materials	426,119	-	-	426,119
Food service/catering	172,965	-	-	172,965
Other student costs	5,294	-	-	5,294
Transportation	3,188	-	-	3,188
Student assessment materials	6,242	-	-	6,242
Total direct student costs	<u>770,110</u>	<u>-</u>	<u>-</u>	<u>770,110</u>
OCCUPANCY EXPENSES				
Rent	877,830	80,720	50,450	1,009,000
Maintenance and repairs	26,711	2,456	1,535	30,702
Building supplies/materials	10,663	980	613	12,256
Contracted building services	25,785	2,371	1,482	29,638
Total occupancy expenses	<u>940,989</u>	<u>86,527</u>	<u>54,080</u>	<u>1,081,596</u>
OFFICE EXPENSES				
Office supplies and materials	58,430	5,373	3,358	67,161
Office equipment rental and maintenance	26,440	2,431	1,520	30,391
Telephone/telecommunications	22,480	2,067	1,292	25,839
Printing and copying	1,644	151	95	1,890
Postage and shipping	478	44	27	549
Computer and related	83,584	7,686	4,803	96,073
Memberships and subscriptions	40,271	3,703	2,314	46,288
Other office expense	14,288	1,314	821	16,423
Total office expenses	<u>247,615</u>	<u>22,769</u>	<u>14,230</u>	<u>284,614</u>
GENERAL EXPENSES				
Insurance	18,802	1,729	1,080	21,611
Administration fee	43,131	3,966	2,479	49,576
Depreciation	78,974	7,262	4,539	90,775
Fees and licenses	9,888	909	568	11,365
Professional fees	183,081	16,835	10,521	210,437
Advertising and marketing costs	54,062	4,971	3,107	62,140
Other general expense	38,569	3,547	2,218	44,334
Total general expenses	<u>426,507</u>	<u>39,219</u>	<u>24,512</u>	<u>490,238</u>
Total Expenses	<u>\$ 6,483,227</u>	<u>\$ 525,344</u>	<u>\$ 328,339</u>	<u>\$ 7,336,910</u>

The accompanying notes are an integral part of this financial statement.

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

**Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows Provided by (Used in) Operating Activities		
Changes in net assets	\$ 695,196	\$ 274,807
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Reinvestment of investment earnings	(6,253)	-
Depreciation	44,320	90,774
Effect of changes in non-cash operating assets and liabilities:		
Federal grants receivable	31,703	132,411
Other grants and contributions receivable	(68,139)	(367,816)
Prepaid expenses and other assets	(16,660)	(21,035)
Accounts payable	(18,916)	(22,623)
Accrued expenses	7,476	130,191
Net Cash Provided by Operating Activities	<u>668,727</u>	<u>216,709</u>
Cash Flows Provided by (Used in) Investing Activities		
(Purchases of)/proceeds from sale of investments	(1,000,000)	903,372
Purchase of property and equipment	(98,859)	(6,739)
Net Cash Provided by (Used in) Investing Activities	<u>(1,098,859)</u>	<u>896,633</u>
Net change in cash and cash equivalents	(430,132)	1,113,342
Cash and cash equivalents, beginning of year	1,810,482	697,140
Cash and Cash Equivalents, End of Year	<u>\$ 1,380,350</u>	<u>\$ 1,810,482</u>

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

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

**Notes to the Financial Statements
June 30, 2019 and 2018**

1. ORGANIZATION AND PROGRAM

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Use of Estimates

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

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investment funds, which have a maturity of 90 days or less. Cash equivalents as of June 30, 2019 and 2018, consisted of short-term highly liquid investments.

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

**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are recorded at fair market value. Investment income, including unrealized gains or losses, is reported through the change in net assets as without donor restrictions unless restricted by the donor or by law.

Fair Value Measurements

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

Financial instruments consist of cash, investments, accounts receivable, and accounts payable. The carrying value of the School's financial instruments in the accompanying statements of financial position approximated their respective estimated fair values as of June 30, 2019 and 2018. Fair values are estimated based on current market rates, prices or liquidation value.

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

**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Grants, Other Grants and Contributions Receivable

Receivables represent revenue earned, but not collected as of the end of the fiscal year, for certain grants and contributions. The School provides an allowance for doubtful accounts equal to the estimated uncollectible accounts. The School's estimate is based on historical collection experience and a review of the current status of specific accounts and grants receivable. There was no allowance for the years ended June 30, 2019 and 2018, as management believes that these amounts are fully collectible.

Equipment, net

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

Net Assets

Net assets without donor restrictions are assets and contributions that are not restricted by donors or for which restrictions have expired.

Net assets with donor restrictions are those whose uses by the School have been limited by donors primarily for a specific time period or purpose. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restriction. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as net assets without donor restriction. There were no amounts with donor restrictions as of the year ended June 30, 2019. Net assets with donor restrictions as of June 30, 2018, was \$125,000, for the purpose of furthering student achievement.

Revenue and Support

Contributions received are recorded when pledged and classified as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

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

**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Support (continued)

Gifts of cash and other assets are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets as net assets released from restrictions.

Revenue Recognition

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

Donated Facilities

The School is located on the campus of Howard University, a related tax-exempt organization. Total in-kind contributions from Howard University for the years ended June 30, 2019 and 2018, were \$1,009,000, for the School's free use of the facility. Management estimated the value of the in-kind services based on the market rate for the value of the facility provided, which is recorded as donated facilities and rent expense in the accompanying financial statements.

Advertising and Marketing Costs

The costs of advertising and marketing are expensed when the services are received. Advertising and marketing expense for the years ended June 30, 2019 and 2018, was approximately \$41,000 and \$62,000, respectively.

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

**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and in the statement of functional expenses. Expenses are charged directly to program services, general and administrative and fundraising based on specific identification, when determinable. Salaries and benefits are charged to programs based on time and effort. The basis of the allocation for most costs is salaries, while direct student costs are 100% attributed to educational programs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the School.

Income Taxes

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

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The School performed an evaluation of uncertain tax positions for the year ended June 30, 2019, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. For the year ended June 30, 2019, the statute of limitations for fiscal years 2016 through 2019 remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the School files tax returns. It is the School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

Liquidity and Availability of Resources

The following table reflects the School's financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year.

Cash and cash equivalents	\$	1,380,350
Investments		1,006,253
Federal grants receivable		34,735
Other grants and contributions receivable		568,139
Financial assets available to meet cash needs for general expenditures within one year	\$	2,989,477

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

**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liquidity and Availability of Resources (continued)

The School has \$2,989,477 of financial assets available within one year of June 30, 2019 to satisfy operating expenses. The School has a goal to maintain financial assets on hand to meet at least 45 days of operating expenses. Additionally, its current ratio goal (total current assets to current liabilities) is 1.0. As part of liquidity management, the School has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Implemented Accounting Pronouncements

In August 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment returns, expenses, liquidity and availability of resources, and presentation of operating cash flows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017. The School implemented ASU 2016-14 for the year ended June 30, 2019. Due to the adoption of this ASU, the presentation of these financial statements and footnotes were updated accordingly.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which creates a singular reporting model for leases. This standard will require the Organization to record changes to its statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. In July 2019, the FASB has postponed the implementation of this pronouncement.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, that improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprise. This standard is effective for periods beginning after December 15, 2019.

Management is evaluating the effects of these pronouncements on the financial statements and will implement these pronouncements by their effective dates. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

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

**Notes to the Financial Statements
June 30, 2019 and 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

The School's management evaluated the accompanying financial statements for subsequent events and transactions through November 22, 2019, the date the financial statements were available for issue, and has determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. INVESTMENTS

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

Certificates of Deposit: Valued at the cost plus accrued interest, where cost approximates the fair value and are rendered level 1 within the fair value hierarchy.

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

The investment balance as of June 30, 2019 represents Certificates of Deposit of \$1,006,253. There were no investments as of June 30, 2018.

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

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

**Notes to the Financial Statements
June 30, 2019 and 2018**

4. EQUIPMENT, NET

As of June 30, 2019 and 2018, equipment consisted of the following:

	<u>2019</u>	<u>2018</u>	<u>Useful Life</u>
Equipment and software	\$ 417,840	\$ 318,981	3 years
Leasehold improvements	4,451	4,451	3 - 5 years
Total	422,291	323,432	
Less: accumulated depreciation	331,326	287,006	
Property and equipment, net	\$ 90,965	\$ 36,426	

Depreciation expense was \$44,320 and \$90,775, for the years ended June 30, 2019 and 2018, respectively.

5. COMMITMENTS AND CONTINGENCIES

Grants

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

The School receives a substantial portion of its revenue from the Government of the District of Columbia. If a significant reduction in this revenue should occur, it may have an effect on the School's programs. During the years ended June 30, 2019 and 2018, the School earned revenue of \$5,502,084 and \$5,341,729, respectively, from the Government of the District of Columbia, of the total revenue and support represented 82% and 81% as of June 30, 2019 and 2018, respectfully. These amounts are reflected as per pupil allocation, DC facilities allowance, Federal grants, and Federal entitlements in the accompanying statements of activities and changes in net assets.

Operating Leases

As disclosed in Note 2, the School operates from premises leased from Howard University at no cost. The School recorded \$1,009,000, as an in-kind contribution and rental expense in the statements of activities and changes in net assets for the years ended June 30, 2019 and 2018, based upon the University's estimate of the fair value of a lease for the premises.

Included in office equipment rental and maintenance expenses are assets leased under an agreement that have been classified as an operating lease. For the years ended June 30, 2019 and 2018, office equipment lease expense was \$17,027.

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

**Notes to the Financial Statements
June 30, 2019 and 2018**

5. COMMITMENTS AND CONTINGENCIES (continued)

As of June 30, 2019, future minimum lease payments were as follows:

<u>Years Ending June 30,</u>	<u>Amounts</u>
2020	\$ 17,027
2021	17,027
2022	14,189
Total	<u>\$ 48,243</u>

Litigation

The School may be subject to various claims and legal proceedings covering a wide range of matters that may arise in the ordinary course of its activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the School.

6. RETIREMENT PLAN

All employees having attained the age of eighteen within the plan year, are eligible to participate in the School's retirement plan (the Plan). The Plan is a tax-deferred annuity plan under Section 401(k) of the Code and is administered by a retirement planning company. The School matches 100% of participating employees' contributions up to 6 percent of the contributing participant's salary, subject to the IRS limit. For the years ended June 30, 2019 and 2018, the School's matching contributions were \$91,989 and \$87,858, respectively.

7. RELATED PARTY TRANSACTIONS

Howard University contributes to the School's operations at its discretion. Howard University made cash contributions in the amount of \$1,000,000, for each of the years ended June 30, 2019 and 2018. As disclosed in Note 2, the School is located on Howard University's campus, which is provided rent-free as an in-kind donation, which is estimated at \$1,009,000 for each of the years ended June 30, 2019 and 2018.

SUPPLEMENTARY INFORMATION

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

**Schedule of Vendors Contracted for Services in Excess of \$25,000
For the Year Ended June 30, 2019**

(UNAUDITED)

<u>Vendor Name</u>	<u>Service Provided</u>	<u>Contract Value or Payments</u>	<u>Related Party</u>
Acumen Behavioral Consulting Inc.	SPED Services	\$ 29,441	No
Allied Telecom	Telephone Telecommunications	35,400	No
Amazon.com	Computers	31,280	No
Apple Inc.	Computers	45,569	No
B. Carter Solutions, LLC	Marketing Promotion	27,443	No
BenefitMall	Health Insurance	449,440	No
CDW Government	Computers	30,508	No
Howard University Parking	Employee Parking	34,892	Yes
Howard University School of Education	Office Expense	35,000	Yes
Melanie & Brother Paint Experts	Contracted Building Services	120,368	No
Paychex	Accounting Services	53,916	No
PREMA, LLC	Accounting Services	138,000	No
SB and Company , LLC	Auditing Services	37,180	No
Top Spanish Cafe & Catering, Inc	School Lunch	129,178	No
Urban Teachers	Teacher Training Program	25,000	No



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Howard University Public Charter Middle School of Mathematics and Science (the School), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 22, 2019.

Internal Control over Financial Reporting

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

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



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose 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 School’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC
November 22, 2019

A handwritten signature in blue ink that reads "SB & Company, LLC".