

HARMONY DC PUBLIC CHARTER SCHOOLS

WASHINGTON, D.C.

COMPARATIVE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Directors
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, 2016 and 2015, and the related statements of activities 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

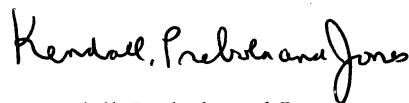
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harmony DC Public Charter Schools as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, 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 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 Harmony DC Public Charter Schools' internal control over financial reporting and compliance.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 30, 2016

HARMONY DC PUBLIC CHARTER SCHOOLS
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 202,220	\$ 74,828
Accounts Receivable	49,549	16,442
Grants Receivable	35,470	53,039
Prepaid Expenses	<u>2,805</u>	<u>41,568</u>
Total Current Assets	<u>\$ 290,044</u>	<u>\$ 185,877</u>
<u>Fixed Assets:</u>		
Fixed Assets, Net of Accumulated Depreciation	<u>\$ 213,251</u>	<u>\$ 238,899</u>
Total Fixed Assets	<u>\$ 213,251</u>	<u>\$ 238,899</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>\$ 609,025</u>	<u>\$ 530,506</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable and Accrued Expenses	\$ 25,298	\$ 46,400
Due to Related Party	32,209	32,209
Payroll Taxes and Related Liabilities	12,185	5,143
Accrued Interest Payable	50	1,002
Accrued Salaries and Vacation	45,675	27,595
Unearned Revenue	-	34,620
Line of Credit	198,210	200,000
Current Portion of Deferred Rent	89,722	80,452
Current Portion of Capital Lease Payable	<u>7,876</u>	<u>7,418</u>
Total Current Liabilities	<u>\$ 411,225</u>	<u>\$ 434,839</u>
<u>Long-Term Liabilities:</u>		
Deferred Rent	\$ 118,096	\$ 198,548
Less: Current Portion Deferred Rent	(89,722)	(80,452)
Capital Lease Payable	9,235	16,653
Less: Current Portion of Lease	<u>(7,876)</u>	<u>(7,418)</u>
Total Long-Term Liabilities	<u>\$ 29,733</u>	<u>\$ 127,331</u>
Total Liabilities	<u>\$ 440,958</u>	<u>\$ 562,170</u>
<u>Net Assets:</u>		
Unrestricted (Deficit)	\$ 168,067	\$ (31,664)
Temporarily Restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$ 168,067</u>	<u>\$ (31,664)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 609,025</u>	<u>\$ 530,506</u>

(See Accompanying Notes and Auditor's Report)

HARMONY DC PUBLIC CHARTER SCHOOLS
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>June 30, 2016</u>			<u>June 30, 2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues and Other Support:</u>						
Per Pupil Funding Allocation	\$ 1,518,635	\$ -	\$ 1,518,635	\$ 938,259	\$ -	\$ 938,259
Per Pupil Funding Allocation - Facilities	324,896	-	324,896	202,752	-	202,752
Federal Entitlements and Grants	242,735	-	242,735	654,941	-	654,941
State Government Grants	15,586	-	15,586	1,843	-	1,843
Private Grants and Contributions	2,211	-	2,211	150	5,000	5,150
Donated Services and Materials	49,358	-	49,358	92,384	-	92,384
Student Program Fees and Other	3,360	-	3,360	5,044	-	5,044
Interest Income	25	-	25	25	-	25
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>(5,000)</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>\$ 2,156,806</u>	<u>\$ -</u>	<u>\$ 2,156,806</u>	<u>\$ 1,900,398</u>	<u>\$ -</u>	<u>\$ 1,900,398</u>
<u>Expenses:</u>						
Educational Services	\$ 1,713,110	\$ -	\$ 1,713,110	\$ 1,647,772	\$ -	\$ 1,647,772
General and Administrative	243,965	-	243,965	284,290	-	284,290
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 1,957,075</u>	<u>\$ -</u>	<u>\$ 1,957,075</u>	<u>\$ 1,932,062</u>	<u>\$ -</u>	<u>\$ 1,932,062</u>
Changes in Net Assets	\$ 199,731	\$ -	\$ 199,731	\$ (31,664)	\$ -	\$ (31,664)
Net Assets at Beginning of Year	<u>(31,664)</u>	<u>-</u>	<u>(31,664)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets at End of Year (Deficit)	<u>\$ 168,067</u>	<u>\$ -</u>	<u>\$ 168,067</u>	<u>\$ (31,664)</u>	<u>\$ -</u>	<u>\$ (31,664)</u>

(See Accompanying Notes and Auditor's Report)

HARMONY DC PUBLIC CHARTER SCHOOLS
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 199,731	\$ (31,664)
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	82,083	58,048
Accounts Receivable - (Increase)/Decrease	(33,107)	(16,442)
Grants Receivable - (Increase)/Decrease	17,569	(53,039)
Prepaid Expenses - (Increase)/Decrease	38,763	(41,568)
Deposits - (Increase)/Decrease	-	(105,730)
Accounts Payable - Increase/(Decrease)	(21,102)	46,400
Due to Related Party - Increase/(Decrease)	-	32,209
Payroll Taxes and Related Liabilities - Increase/(Decrease)	7,042	5,143
Accrued Interest - Increase/(Decrease)	(952)	1,002
Accrued Salaries and Vacation - Increase/(Decrease)	18,080	27,595
Unearned Revenue - Increase/(Decrease)	(34,620)	34,620
Deferred Rent - Increase/(Decrease)	<u>(80,452)</u>	<u>198,548</u>
Net Cash Flows from Operating Activities	<u>\$ 193,035</u>	<u>\$ 155,122</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	\$ (56,435)	\$ (161,941)
Payments for Leasehold Improvements	<u>-</u>	<u>(112,564)</u>
Net Cash Flows from Investing Activities	<u>\$ (56,435)</u>	<u>\$ (274,505)</u>
<u>Cash Flows from Financing Activities:</u>		
Proceeds from Line of Credit	\$ -	\$ 200,000
Payments on Line of Credit	(1,790)	-
Payments on Capital Lease	<u>(7,418)</u>	<u>(5,789)</u>
Net Cash Flows from Financing Activities	<u>\$ (9,208)</u>	<u>\$ 194,211</u>
Net Increase in Cash and Cash Equivalents	\$ 127,392	\$ 74,828
Cash and Cash Equivalents at Beginning of Year	<u>74,828</u>	<u>-</u>
Cash and Cash Equivalents at End of Year	<u>\$ 202,220</u>	<u>\$ 74,828</u>

Supplemental Disclosures:

- a) Interest in the amount of \$10,501 and \$1,963, respectively, was paid during the years ended June 30, 2016 and 2015.
- b) No income taxes were paid during the years ended June 30, 2016 and 2015.

Non-Cash Disclosures:

- a) Investing activities for the year ended June 30, 2015, include the donation of computers with an estimated value of \$6,000.
- b) The Charter School obtained photocopy equipment during the year ended June 30, 2015, in the amount of \$22,442 through a capital lease obligation.

(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 Government. 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

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-605-25, *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged.

All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions and promises to give with donor imposed conditions are recognized as unrestricted support when the conditions on which they depend are substantially met. Contributions and promises to give with donor imposed restrictions are reported as temporarily restricted support. Unconditional promises to give due in the next year are recorded at their net realizable value. An allowance for uncollectible contributions receivable is provided based upon management's judgement, including such factors as prior collection history and type of contribution.

The Charter School reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Charter School reports expirations of donor restrictions when the donated or acquired assets are placed in service.

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. The Charter School recognized 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.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(b) Revenue Recognition: (Continued)

Before and After Care Fees

The Charter School's school day runs from 8:00 a.m. to 3:00 p.m. Monday through Friday. To provide additional learning opportunities and support the needs of parents and families, the Charter School partnered with the YMCA to provide after care at the school building - beginning each day at dismissal and running through 6 p.m. While the Charter School's school day is free and open to all residents of the District of Columbia, participation in the aftercare program through the YMCA does require a weekly membership fee, which ranges from full-tuition to reduced tuition based on a sliding scale for families that qualify.

(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 organization 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 year ended June 30, 2016.

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

(d) Grants:

Grant revenues are received primarily from Federal agencies and the District of Columbia Government. These grants are subject to financial and compliance audits by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustment has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements.

Cash receipts in excess of costs incurred for grants are reflected as refundable advances until they are expended for the purpose of the grant, at which time they are recognized as unrestricted support. Costs incurred in excess of cash received are reflected as grants receivable.

(e) Net Assets:

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-205-05, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC No. 958-205-05, the Charter School is required to report information regarding its financial position and activities according to three classes of net assets.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

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

(e) **Net Assets:** (Continued)

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Charter School and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control. This classification includes net assets subject to donor-imposed conditions, which have been met in the current year and net assets subject to donor-imposed restrictions that have been released from restrictions.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Charter School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets available at June 30, 2016 or 2015.

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Support of Instructional Needs	\$ <u> -</u>	\$ <u> 5,000</u>
Total	\$ <u> -</u>	\$ <u> 5,000</u>

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that requires the net assets be maintained permanently by the Charter School. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Charter School did not have any permanently restricted net assets as of June 30, 2016 or 2015.

(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, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(f) Donated Services and Materials: (Continued)

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 Directors 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 (or an asset) in the period they are received.

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Intellectual Property License	\$ 49,358	\$ 33,175
Leadership Salaries	-	51,933
School Computers	-	6,000
Student Uniforms	<u>-</u>	<u>1,276</u>
Total	<u>\$ 49,358</u>	<u>\$ 92,384</u>

(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 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.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

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.

ASSESSMENT

We use Amplify's DIBELS NEXT and Reading 3D, NWEA's MAP, ALEKS, 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.

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.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(h) Functional Expense Allocation Policies and Procedures:

Management has elected to prepare a schedule of functional expenses that is presented as supplemental information to the financial statements. The schedule of functional expenses presents an allocation of each expense category between program services, general and administrative, and fundraising activities. Program service costs pertain to educating students. General and administrative costs pertain to supporting activities. Fundraising costs relate to fundraising activities such as special events, fundraisers and the soliciting of contributions.

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

Direct costs, where identifiable, are allocated in whole to the appropriate functional category. Direct student expenses (textbooks, materials, instructional supplies, assessment material, contract educational services, and food service) are allocated entirely to program services.

Personnel expenses for salaries, payroll taxes and employee benefit plans are allocated based on job descriptions and management estimates of time spent on particular activities. Personnel expenses for salaries are divided into employee categories (executive, teachers, support staff, etc.) and then a percentage of time spent on program services, general and administrative activities, and fundraising activities is applied. All other personnel expenses (employee benefits, payroll taxes, staff development) are allocated based on the weighted average allocation of the direct salaries.

Other expenses that are not directly identifiable by program are allocated based on management estimates of use of resources. For other expenses where it would not be appropriate to designate 100 percent as a program service cost, general and administrative cost, or fundraising cost, the allocation formula for personnel expenses is utilized for cost allocation purposes.

(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.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(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.

2. 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, 2016, 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, 2016, the statute of limitations for tax years 2012 through 2014 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the organization 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, 2016, the Charter School had no accruals for interest and/or penalties.

3. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents at year end consisted of the following:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Checking Account - Non Interest Bearing	\$ 196,465	\$ 55,650
Money Market	5,755	19,025
Cash on Hand	<u>-</u>	<u>153</u>
Total	<u>\$ 202,220</u>	<u>\$ 74,828</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 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, 2016 and 2015, none 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

4. 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, 2016 and 2015 consisted of the following:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Accounts Receivable</u>		
Per Pupil Funding	\$ 44,811	\$ 15,100
Reimbursable Expenses	1,092	778
Other	3,646	-
Pay-Pal	<u>-</u>	<u>564</u>
Total	<u>\$ 49,549</u>	<u>\$ 16,442</u>
<u>Grants Receivable</u>		
Charter School Planning and Implementation Grant	\$ 26,769	\$ 29,114
National Food Program Cluster	6,705	3,500
Physical Education Grant	1,636	-
Healthy Schools Act	360	230
Elementary and Secondary Education Act - Title I	-	11,319
Elementary and Secondary Education Act - Title II	<u>-</u>	<u>8,876</u>
Total	<u>\$ 35,470</u>	<u>\$ 53,039</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 the balance of the accounts and grants receivable 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, 2016 and 2015.

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 when collection efforts have been exhausted.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

4. 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.

5. 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, 2016 and 2015, was \$82,083 and \$54,048, 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, 2016

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Amortization and Depreciation</u>	<u>Net Book Value</u>
Computer Equipment	3 Years	\$ 96,377	\$ 36,904	\$ 59,473
Furniture and Equipment	3-5 Years	144,441	59,409	85,032
Leasehold Improvements	60 Months	<u>112,564</u>	<u>43,818</u>	<u>68,746</u>
Total Fixed Assets		<u>\$ 353,382</u>	<u>\$ 140,131</u>	<u>\$ 213,251</u>

June 30, 2015

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Amortization and Depreciation</u>	<u>Net Book Value</u>
Computer Equipment	3 Years	\$ 39,942	\$ 9,616	\$ 30,326
Furniture and Equipment	3-5 Years	144,441	27,529	116,912
Leasehold Improvements	60 Months	<u>112,564</u>	<u>20,903</u>	<u>91,661</u>
Total Fixed Assets		<u>\$ 296,947</u>	<u>\$ 58,048</u>	<u>\$ 238,899</u>

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

6. 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 is an annual escalation clause of three percent (3%). Accordingly, \$198,548 of future rent payments have been 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, 2016 and 2015 was \$118,096 and \$198,548, respectively.

7. 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 is scheduled for August 21, 2017. Interest expense was \$718 and \$1,069, respectively, for the years ended June 30, 2016 and 2015 using an implicit rate of 6.00%. The lease is secured by the photocopiers that cost \$22,442 and is presented as part of the carrying balance of Fixed Assets. For the years ended June 30, 2016 and 2015, depreciation expense in the amount of \$7,481 and \$6,234, respectively, on the photocopiers has been included in depreciation expense. Accumulated depreciation at June 30, 2016 and 2015 was \$13,715 and \$6,234, respectively. The balance of the capital lease debt was \$9,235 and \$16,653, respectively, at June 30, 2016 and 2015. 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>
2017	\$ 8,220	\$ 7,876	\$ 344
2018	<u>1,370</u>	<u>1,359</u>	<u>11</u>
Total Future Minimum Lease Payments	<u>\$ 9,590</u>	<u>\$ 9,235</u>	<u>\$ 355</u>

8. 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 \$350,000 and a maturity date of November 14, 2015. The Line of Credit has been extended through January 14, 2017. 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 Government. In addition, the Charter School has granted a security interest to the financial institution in a money market maintained with a minimum balance of \$19,000. During the year ended June 30, 2015, total principal draws on the Line totaled \$200,000. Total interest expense incurred on this Line of Credit for the years ended June 30, 2016 and 2015 was \$9,783 and \$1,896. The balance of the Line of Credit at June 30, 2016, was \$198,210 with an effective interest rate of 5.50%. The balance of the Line of Credit at June 30, 2015, was \$200,000 with an effective interest rate of 5.25%.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

9. 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 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, with the first such review scheduled to occur in 2019. 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 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, 2016 and 2015, the Charter School incurred \$20,385 and \$18,192, 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, 2016, was not permitted to be greater than 288 students. Audit enrollment for the 2015/2016 year was 104 students. Audit enrollment for the 2014/2015 year was 66 students.

10. 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 allotments. This funding is based on the equivalent number of full-time students and is determined annually. For the year ended June 30, 2016, the per-student rate ranged from \$9,492 to \$12,340 for the education allotment and \$3,124 for the facility allotment. For the year ended June 30, 2015, the per-student rate ranged from \$9,492 to \$12,430 for the education allotment and \$3,072 for the facility allotment. Additional allotments were made for Special Education Services. Per-pupil funding for the years ended June 30, 2016 and 2015 was as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Grade Level - Kindergarten to Grade 5	\$ 1,041,274	\$ 663,491
Facilities Allowance	324,896	202,752
Special Education	339,161	135,474
At-Risk Students	128,898	139,294
English as a Second Language	<u>9,302</u>	<u>-</u>
Total	<u>\$ 1,843,531</u>	<u>\$ 1,141,011</u>

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

11. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2016 and 2015, the Charter School participated in multiple federal award programs. Federal revenues recognized during the years ended June 30, 2016 and 2015, were as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Charter School Planning and Implementation		
Grant (Title V, Part B)	\$ 102,049	\$ 530,570
NCLB - Entitlement Funds (Title I)	64,017	52,981
National School Lunch and Breakfast Program	49,637	22,881
Physical Education Grant	10,315	2,380
NCLB - Entitlement Funds (Title II)	9,264	21,206
Individuals with Disabilities Education Act (IDEA)	<u>7,453</u>	<u>24,923</u>
 Total	 <u>\$ 242,735</u>	 <u>\$ 654,941</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. 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.

12. COMMITMENTS:

School Space - St. Martin of Tours:

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 is scheduled to expire on June 30, 2019. As a provision of this lease agreement, the Charter School has the option to renew this rental lease agreement for one additional five (5) year period. 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 are 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, 2016 and 2015, was \$322,673 and \$322,298, respectively.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12. COMMITMENTS: (Continued)

School Space - St. Martin of Tours: (Continued)

As of June 30, 2016, 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>Rent Abatement</u>	<u>Total</u>
2017	\$ 318,548	\$ 89,722	\$ 408,270
2018	318,548	9,270	327,818
2019	<u>318,548</u>	<u>19,104</u>	<u>337,652</u>
Total Future Minimum Lease Payments	<u>\$ 955,644</u>	<u>\$ 118,096</u>	<u>\$ 1,073,740</u>

13. CONCENTRATIONS:

Revenues:

The Charter School receives public funds from the DC 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, 2016 and 2015, eighty-five percent (85%) and sixty percent (60%), respectively, of total support 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 (DC PCSB).

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.

14. 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.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

14. CONTINGENCIES: (Continued)

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 Directors 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 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.

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 Government. Any future change in dynamics could adversely affect the operations of public charter schools.

15. SUBSEQUENT EVENTS:

Financial Statement Preparation:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 30, 2016, 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.

Enrollment:

Enrollment for the 2016/2017 school year is projected to be approximately ninety-seven (97) students. These enrollment numbers are down from the current enrollment number of one-hundred and four (104) students during the 2015/2016 school year.

16. 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. Soner Tarim, the Chief Executive Officer and Superintendent of Schools for Harmony Public Schools, was the board president of Harmony DC Public Charter Schools throughout the fiscal year. As board president of Harmony DC, as well as having voting rights with Harmony DC, Mr. Tarim could influence the financial and operational activities of Harmony DC through voting authority. However, his voting rights did not constitute a majority of the Board of Directors and Mr. Tarim recused himself from all votes involving Harmony DC Schools.

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

16. RELATED PARTY TRANSACTIONS: (Continued)

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 per pupil funds paid to the Charter School. During the years ended June 30, 2016 and 2015, this license fee was abated. An amount of \$49,358 and \$33,175, respectively, was recognized as a donated license fee for the years ended June 30, 2016 and 2015.

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, 2016 and 2015, an amount of \$32,209 was owed to Harmony Public Schools for both school services and reimbursable expenses.

Board of Directors:

In addition to the Chief Executive Officer of Harmony Schools serving as board president for Harmony DC Public Charter Schools, another member of the Charter School's board served as the Director of Communications for Harmony Public Schools through April 2016.

Two of the board members appointed to serve on the board of directors 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.

17. ADVERTISING:

Advertising costs are expensed when incurred. Advertising was conducted for the purpose of promoting open enrollment and recruiting to the Charter School and to provide outreach to the community. Advertising expenses in the amount of \$420 and \$19,732 were incurred during the years ended June 30, 2016 and 2015, respectively.

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 Ascensus. 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, 2016 and 2015. Safe harbor employer contributions for the years ended June 30, 2016 and 2015, were \$23,404 and \$9,695, respectively.

19. EMPLOYEE BENEFITS:

The cost of fringe benefits incurred for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Social Security/Medicare	\$ 61,164	\$ 52,638
Health Insurance	61,125	48,578
Life and Disability Insurance	4,361	2,921
Retirement	23,404	9,695
Unemployment	5,906	7,945
Workers Compensation	<u>3,857</u>	<u>3,438</u>
Total	<u>\$ 159,817</u>	<u>\$ 125,215</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. OCCUPANCY COST:

The cost of occupancy for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Rent	\$ 322,673	\$ 322,298
Utilities	36,075	41,890
Contracted Building Services	37,640	23,289
Maintenance and Repairs	7,900	42,866
Janitorial Supplies	1,362	2,747
Leasehold Amortization	<u>22,915</u>	<u>20,903</u>
Total	<u>\$ 428,565</u>	<u>\$ 453,993</u>

HARMONY DC PUBLIC CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS

21. 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.

HARMONY DC PUBLIC CHARTER SCHOOLS
COMPARATIVE STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	June 30, 2016				June 30, 2015			
	<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	\$ 268,767	\$ 215,014	\$ 53,753	\$ -	\$ 202,820	\$ 162,256	\$ 40,564	\$ -
Donated Leadership Salaries	-	-	-	-	51,933	41,547	10,386	-
Teaching Staff Salaries	476,656	476,656	-	-	391,186	391,186	-	-
Student Support Salaries	44,403	44,403	-	-	69,527	69,527	-	-
Office and Administrative Staff	46,633	41,970	4,663	-	34,186	-	34,186	-
Employee Benefits	92,747	86,270	6,477	-	64,632	51,705	12,927	-
Payroll Taxes	67,070	62,386	4,684	-	60,583	48,466	12,117	-
Travel and Meetings	-	-	-	-	12,309	9,848	2,461	-
Staff Development Expense	16,698	16,698	-	-	13,856	13,856	-	-
Other Personnel Expenses	8,223	7,649	574	-	11,486	-	11,486	-
Total Personnel, Salaries and Benefits	<u>\$ 1,021,197</u>	<u>\$ 951,046</u>	<u>\$ 70,151</u>	<u>\$ -</u>	<u>\$ 912,518</u>	<u>\$ 788,391</u>	<u>\$ 124,127</u>	<u>\$ -</u>
<u>Direct Student Costs:</u>								
Textbooks	\$ -	\$ -	\$ -	\$ -	\$ 71,006	\$ 71,006	\$ -	\$ -
Student Supplies and Materials	41,883	41,883	-	-	23,264	23,264	-	-
Instructional Design and Evaluation	-	-	-	-	19,090	19,090	-	-
Food Service	72,575	72,575	-	-	57,866	57,866	-	-
Contracted Instruction	109,614	109,614	-	-	49,090	49,090	-	-
Student Recruiting	35,206	35,206	-	-	151,938	151,938	-	-
Other Student Costs	1,535	1,535	-	-	1,741	1,741	-	-
Total Direct Student Costs	<u>\$ 260,813</u>	<u>\$ 260,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 373,995</u>	<u>\$ 373,995</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Occupancy Costs:</u>								
Rent	\$ 322,673	\$ 300,138	\$ 22,535	\$ -	\$ 322,298	\$ 290,068	\$ 32,230	\$ -
Utilities	36,075	33,556	2,519	-	41,890	33,512	8,378	-
Contracted Building Services	37,640	35,011	2,629	-	23,289	18,631	4,658	-
Maintenance and Repairs	7,900	7,348	552	-	42,866	34,292	8,574	-
Janitorial Supplies	1,362	1,266	96	-	2,747	2,198	549	-
Leasehold Amortization	22,915	21,315	1,600	-	20,903	18,813	2,090	-
Total Occupancy Costs	<u>\$ 428,565</u>	<u>\$ 398,634</u>	<u>\$ 29,931</u>	<u>\$ -</u>	<u>\$ 453,993</u>	<u>\$ 397,514</u>	<u>\$ 56,479</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, 2016 AND 2015

	June 30, 2016				June 30, 2015			
	<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	\$ 4,798	\$ 4,463	\$ 335	\$ -	\$ 8,596	\$ 6,877	\$ 1,719	\$ -
Office Equipment Maintenance	2,916	2,712	204	-	1,722	1,378	344	-
Telephone/Telecommunications	3,106	2,889	217	-	4,344	3,475	869	-
Postage and Shipping	392	365	27	-	223	178	45	-
Computer Support Fees	2,080	1,935	145	-	563	450	113	-
Printing and Duplication	60	56	4	-	69	55	14	-
Dues and Subscription	<u>6,341</u>	<u>-</u>	<u>6,341</u>	<u>-</u>	<u>3,338</u>	<u>-</u>	<u>3,338</u>	<u>-</u>
Total Office Expenses	<u>\$ 19,693</u>	<u>\$ 12,420</u>	<u>7,273</u>	<u>\$ -</u>	<u>\$ 18,855</u>	<u>\$ 12,413</u>	<u>6,442</u>	<u>\$ -</u>
<u>General Expenses:</u>								
Insurance	\$ 16,623	\$ 15,462	\$ 1,161	\$ -	\$ 16,719	\$ 16,719	\$ -	\$ -
Authorizer Fee	20,385	18,961	1,424	-	18,192	18,192	-	-
Intellectual Property License	49,358	-	49,358	-	33,175	-	33,175	-
Accounting, Auditing and Payroll	68,808	-	68,808	-	55,609	-	55,609	-
Legal Fees	275	-	275	-	3,477	2,782	695	-
Other Professional Fees	950	-	950	-	3,175	2,541	634	-
Other Expenses	739	739	-	-	2,244	1,795	449	-
Depreciation	59,168	55,035	4,133	-	37,145	33,430	3,715	-
Interest Expense	<u>10,501</u>	<u>-</u>	<u>10,501</u>	<u>-</u>	<u>2,965</u>	<u>-</u>	<u>2,965</u>	<u>-</u>
Total General Expenses	<u>\$ 226,807</u>	<u>\$ 90,197</u>	<u>\$ 136,610</u>	<u>\$ -</u>	<u>\$ 172,701</u>	<u>\$ 75,459</u>	<u>\$ 97,242</u>	<u>\$ -</u>
Total Functional Expenses	<u>\$ 1,957,075</u>	<u>\$ 1,713,110</u>	<u>\$ 243,965</u>	<u>\$ -</u>	<u>\$ 1,932,062</u>	<u>\$ 1,647,772</u>	<u>\$ 284,290</u>	<u>\$ -</u>

(See Accompanying Notes and Auditor's Report)

HARMONY DC PUBLIC CHARTER SCHOOLS
COMPARATIVE SCHEDULES OF AVERAGE COST PER STUDENT
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

June 30, 2016

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 1,314,476	\$ 12,639
Occupancy Cost	428,565	4,121
General and Administrative	214,034	2,058
Fundraising	<u>-</u>	<u>-</u>
Total	<u>\$ 1,957,075</u>	<u>\$ 18,818</u>

The above is the average per student cost for the year ended June 30, 2016, and is based on a full time equivalent (FTE) enrollment of 104 students.

June 30, 2015

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 1,250,258	\$ 18,943
Occupancy Cost	453,993	6,879
General and Administrative	227,811	3,452
Fundraising	<u>-</u>	<u>-</u>
Total	<u>\$ 1,932,062</u>	<u>\$ 29,274</u>

The above is the average per student cost for the year ended June 30, 2015, and is based on a full time equivalent (FTE) enrollment of 66 students.

(See Accompanying Notes and Auditor's Report)

Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Directors
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, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2016.

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.

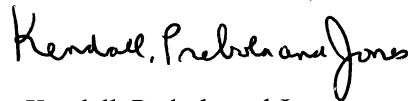
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 30, 2016

HARMONY DC PUBLIC CHARTER SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

FINDINGS - FINANCIAL STATEMENT AUDIT

There were no audit findings in the prior year.

HARMONY DC PUBLIC CHARTER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

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.