LEE MONTESSORI PUBLIC CHARTER SCHOOL

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2015

TABLE OF CONTENTS

JM&M
JONES, MARESCA & MCQUADE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

10500 Little Patuxent Parkway
Suite 770
Columbia, Maryland 21044
(410) 884-0220
(301) 596-5451
Fax: (301) 596-5471

Independent Auditor's Report

To the Board of Directors
Lee Montessori Public Charter School
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Lee Montessori Public Charter School (the "School") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 Lee Montessori Public Charter School as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, on our consideration of Lee Montessori Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lee Montessori Public Charter School's internal control over financial reporting and compliance.

Jones Maresca & McQuade PA

September 30, 2015
Washington, DC

LEE MONTESSORI PUBLIC CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

CURRENT ASSETS		
Cash	$	183,398
Grants receivable		87,060
Prepaid expenses		6,512
Total current assets		276,970
PROPERTY AND EQUIPMENT		
Furniture and fixtures		60,065
Equipment		7,324
Less: accumulated depreciation		(10,402)
Net property and equipment		56,987
NON CURRENT ASSETS		
Security deposit		5,000
TOTAL ASSETS	$	338,957

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	$	74,470
Accrued expenses		39,367
Line of credit		49,000
Total liabilities		162,837
NET ASSETS		
Unrestricted net assets		94,753
Temporarily restricted net assets		81,367
Total net assets		176,120
TOTAL LIABILITIES AND NET ASSETS	$	338,957

See independent auditor's report and accompanying notes to the financial statements.

LEE MONTESSORI PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	$ 1,119,776	$ -	$ 1,119,776
Per pupil facility allowance	227,328	-	227,328
Federal entitlements and grants	361,022	-	361,022
In-kind contributions	16,536	-	16,536
Activity fees	51,835	-	51,835
Fundraising	44,337	-	44,337
Net assets released from restriction	168,633	(168,633)	-
Total revenue and support	1,989,467	(168,633)	1,820,834
EXPENSES			
Program/Education	1,367,077	-	1,367,077
Management and general	376,548	-	376,548
Fundraising	40,820	-	40,820
Total expenses	1,784,445	-	1,784,445
CHANGE IN NET ASSETS	205,022	(168,633)	36,389
NET ASSETS, beginning of year	(110,269)	250,000	139,731
NET ASSETS, end of year	$ 94,753	81,367	$ 176,120

See the independent auditor's report and accompanying notes to the financial statements.

LEE MONTESSORI PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program/ Education	Supporting Services: Management and General	Supporting Services: Fundraising	Total
PERSONNEL COSTS				
Salaries	$ 682,489	$ 177,645	$ 4,774	$ 864,908
Employee benefits	49,187	12,433	465	62,085
Payroll taxes	56,514	14,285	534	71,333
Staff development	24,808	-	-	24,808
Total personnel costs	812,998	204,363	5,773	1,023,134
DIRECT STUDENT COSTS				
Supplies and materials	82,548	-	-	82,548
Contracted student services	228,405	-	-	228,405
Textbooks	1,504	-	-	1,504
Student assessments	1,856	-	-	1,856
Other student costs	14,553	-	-	14,553
Total direct student costs	328,866	-	-	328,866
OCCUPANCY EXPENSES				
Rent	141,501	35,376	-	176,877
Maintenance and repairs	294	74	-	368
Total occupancy expenses	141,795	35,450	-	177,245
OFFICE EXPENSES				
Office supplies and materials	627	11,907	-	12,534
Printing and publications	508	1,524	-	2,032
Postage and shipping	299	897	-	1,196
Telephone	2,015	4,702	-	6,717
Other office expense	14,600	14,600	-	29,200
Total office expenses	18,049	33,630	-	51,679
GENERAL EXPENSES				
Insurance	-	13,537	-	13,537
Bank fees	-	1,374	-	1,374
Travel	87	88	-	175
Consultants	8,250	13,431	-	21,681
Administration fee	-	17,771	-	17,771
Accounting, auditing and payroll	-	41,105	-	41,105
Legal fees	-	4,000	-	4,000
Depreciation	5,668	3,458	-	9,126
Food service/catering	49,279	-	-	49,279
Other general expense	2,085	8,341	35,047	45,473
Total general expenses	65,369	103,105	35,047	203,521
Total expenses	$ 1,367,077	$ 376,548	$ 40,820	$ 1,784,445

LEE MONTESSORI PUBLIC CHARTER SCHOOL
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	36,389
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation		9,126
(Increase) decrease in assets:		
Grants receivable		34,516
Prepaid expenses		(1,137)
Security deposit		(1,700)
Increase (decrease) in liabilities:		
Accounts payable		58,360
Accrued expenses		39,367
Net cash provided by operating activities		174,921
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment		(62,953)
NET INCREASE IN CASH		111,968
CASH, beginning of year		71,430
CASH, end of year	$	183,398

See independent auditor's report and accompanying notes to the financial statements.

LEE MONTESSORI PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A – ORGANIZATION AND PURPOSE

Lee Montessori Public Charter School (the "School") was organized in January 2013 as a not-for-profit organization dedicated to creating a peaceful, multi-age learning environment for public preschool and elementary aged children. The School's first year of operation was fall 2014 – spring 2015. The School fosters the physical, social, emotional, and academic growth and development of students and produce life-long learners. The School achieves its mission by:

- Inspiring academic success by providing Montessori curriculum in a holistic and developmentally responsive environment
- Nurture student creativity, curiosity and efficacy by promoting self-directed education
- Offer individual paced academic instruction and acidities
- Engage students in purposeful and collaborative community building activities
- Foster students use of inner discipline, concentration and task completion of lifelong critical thinking and discovery; and
- Preserve and cultivate the innate capacity of students so they can reach their full potential as contribution global citizens

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The School's financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Basis of Presentation

Financial statement presentation follows Financial Standards Accounting Board ("FASB") Accounting Standards Codification ("ASC") Topic *Not-for-Profit-Entities*. In accordance with the topic, the School is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of and/or the passage of time. For the year ended June 30, 2015, temporarily restricted net assets totaled $81,367 and were for the purpose of initial school development related expenses.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation (continued)

> *Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the School. There were no permanently restricted net assets as of June 30, 2015.

Grants Receivable

Grants receivable are recorded when billed and represent claims against third parties that will be settled in cash. Grants receivable are reported net of an allowance for doubtful accounts, if any. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, the age of outstanding receivable and existing economic conditions. If actual experience changes, revisions to the allowance may be necessary. Past due grants receivable are written off when internal collection efforts have been unsuccessful in collecting the amount due. As of June 30, 2015, the majority of the receivables are due from governmental agencies. Due to the nature of funding from the federal government and the District of Columbia, management believes that all receivables will be collected. Therefore, no allowance for doubtful accounts has been recorded.

Property and Equipment

All acquisitions of property and equipment in excess of $1,000 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment acquired are recorded at cost or, if donated, at the approximate fair value at the time of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Maintenance and repairs which do not improve or extend the life of the respective asset are charged to expense when incurred.

Revenue Recognition

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When restrictions are met within the same year as restricted funds are contributed, they are classified as unrestricted contributions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition (continued)

Government entitlements and grants and are recognized during the period in which the work is performed. Accordingly, grant funds received in the current fiscal year, for work to be performed in the next fiscal year are recorded as deferred revenue.

Activity Fee

Activity fees are recognized at the time of the activity. This revenue represents amounts collected from students for, but not restricted to, field trips, meals, camps and other school related activities.

In-kind Contributions

The School holds an annual fundraising event for which it receives in-kind contributions of goods that are auctioned. The in-kind contributions are recognized at fair value at the date of the donation.

Functional Allocation of Expenses

The costs of providing the School's various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs, fundraising and supporting services benefited.

Use of Estimates

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

NOTE C – INCOME TAXES

The School is exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. In addition, the School is classified as an entity that is not a private foundation under Section 509(a)(1).

The School has adopted the accounting of uncertainty in income taxes as required by the *Income Taxes* topic of the FASB ASC. The topic requires the School to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is more than fifty percent likely of being realized upon ultimate settlement which could result in the School recording a tax liability that would reduce its net assets.

The School has analyzed its tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax positions taken on returns filed for open tax years (2012-2013), or expected to be taken in its 2014 tax return. The School is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

NOTE D – LINE OF CREDIT

The School obtained a line of credit from the Charter School Incubator Initiative for an amount of $50,000. The line of credit is interest free and no interest is due unless there is a default on the line of credit. The unpaid balance was initially due in full no later than December 31, 2014. However, this due date was extended through August 31, 2015. The line of credit is secured by the Title V-b grant funding that the School receives from the District of Columbia. As of June 30, 2015, the amount outstanding balance on the line of credit totaled $49,000**,** which was paid in full on July 1, 2015.

NOTE E – OPERATING LEASE

On May 21, 2014, the School entered into a lease agreement with Shaed School, LLC whose managing member is the Charter School Incubator Initiative. The term of the lease is August 1, 2014 through July 30, 2016.The lease agreement is considered full service, as it covers rent, utilities, building maintenance repairs, cleaning and other miscellaneous services.

In accordance with the terms of the lease agreement, the School is required to pay a usage fee, which is determined based on the number of student enrollment. The total annual usage fee is based on the number of students enrolled as of each census date (every October) multiplied by the per

NOTE E – OPERATING LEASE - continued

pupil facilities allowance received by the School from the District of Columbia, less amounts withheld under the terms of the lease. Accordingly, the School cannot reasonably estimate its future minimum lease liability under the terms of the lease; however, usage fees cannot exceed the facilities allowance received from the District of Columbia, a guaranteed funding source.

Rent expense for the year ended June 30, 2015, totaled $176,877.

NOTE F – RETIREMENT PLAN

The School sponsors a 401(k) deferred compensation retirement plan (the "Plan") for all employees who are at least 18 years of age. Eligible employees can become participants on the first day of the month immediately following the completion of eligibility requirements. Employees may make elective deferred contributions from their eligible earnings, up to the amount allowed by the Internal Revenue Service. It is optional for the School to match the first three percent of a participant's compensation. There was no match for the year ended June 30, 2015.

NOTE G – CONCENTRATION OF RISK

The School is supported primarily by local and federal appropriations and local grants. For the year ended June 30, 2015, 94% of the total revenue was provided by government agencies. Reduction of this source of support would have a significant impact on the School's programs and activities. The geographical area of clients served is Ward 5 of the District of Columbia.

NOTE H – AVERAGE COST PER STUDENT

For the year ended June 30, 2015, the average cost per student totaled $22,588. This amount was calculated by dividing total noncapital expenditures, by the School's full-time student enrollment.

NOTE I – COMMITMENTS AND CONTINGENT LIABILITIES

The School receives revenue from government grants and contracts that are subject to inspection and audit by the appropriate funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The School is of the opinion that disallowance, if any, arising from such audits will not have a material effect on the financial statements. The School has no provisions for the possible disallowance of program costs on its financial statements.

NOTE J – SUBSEQUENT EVENTS

As required by the *Subsequent Events* topic of the FASB ASC, the School has evaluated the impact on its financial statements and disclosure of certain transactions occurring subsequent to its year end through the date of the auditor's report, which is the date the School's financial statements were available to be issued. Management has determined that there are no subsequent events, other than that noted in Note D that requires disclosure pursuant to the subsequent event topic.

JM&M
JONES, MARESCA & MCQUADE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

10500 Little Patuxent Parkway
Suite 770
Columbia, Maryland 21044
(410) 884-0220
(301) 596-5451
Fax: (301) 596-5471

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Board of Directors
Lee Montessori Public Charter School
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lee Montessori Public Charter School (the "School"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose for 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Lee Montessori Public Charter School

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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 and other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Jones Marcus & McQuade PA

Washington, DC
September 30, 2015