

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2018 AND 2017**

## TABLE OF CONTENTS

	<u>Page No.</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 - 2
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position	3
Statements of Activities	4
Statement of Functional Expenses, Year Ended June 30, 2018	5
Statement of Functional Expenses, Year Ended June 30, 2017	6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 15
<b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	16 - 17
Schedule of Findings and Questioned Costs	18 - 20



## Independent Auditor's Report

To the Board of Trustees  
Breakthrough Montessori Public Charter School  
Washington, DC

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Breakthrough Montessori Public Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 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.

Breakthrough Montessori Public Charter School  
Independent Auditor's Report  
Page Two

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 Breakthrough Montessori Public Charter School as of June 30, 2018 and 2017, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018, on our consideration of Breakthrough 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Breakthrough Montessori Public Charter School's 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 Breakthrough Montessori Public Charter School's internal control over financial reporting and compliance.

*Jane Marwick & McQuade PA*

November 26, 2018  
Washington, DC

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

<u>ASSETS</u>		
	2018	2017
<b>CURRENT ASSETS</b>		
Cash	\$ 111,335	\$ 559,356
Grants receivable	3,918	5,353
Accounts receivable	36,024	52,376
Prepaid expenses	158,132	2,423
Total Current Assets	309,409	619,508
<b>NONCURRENT ASSETS</b>		
Property and equipment, net	2,767,462	111,566
Security deposit	57,281	24,770
Total Noncurrent Assets	2,824,743	136,336
<b>TOTAL ASSETS</b>	\$ 3,134,152	\$ 755,844
 <u>LIABILITIES AND NET ASSETS</u> 		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,025,058	\$ 63,016
Accrued expenses	240,865	37,534
Loan payable, current portion	86,761	-
Capital lease obligations, current portion	1,816	1,816
Deferred rent, current portion	1,041	10,203
Total Current Liabilities	2,355,541	112,569
<b>NONCURRENT LIABILITIES</b>		
Loan payable, net of current portion	121,625	-
Capital lease obligations, net of current portion	3,363	4,879
Deferred rent, net of current portion	26,008	6,643
Total Noncurrent Liabilities	150,996	11,522
Total Liabilities	2,506,537	124,091
<b>NET ASSETS</b>		
Unrestricted	627,615	631,753
Total Net Assets	627,615	631,753
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 3,134,152	\$ 755,844

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

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>UNRESTRICTED REVENUE AND SUPPORT</b>		
Per pupil appropriations	\$ 2,107,053	\$ 1,242,997
Per pupil facility allowance	411,862	278,036
Federal entitlements and grants	94,043	194,329
Other grants and contributions	3,596	331,074
Donated services and materials	11,010	164,900
Program service fees	91,560	14,683
Special events	-	3,315
Total Revenue and Support	2,719,124	2,229,334
<b>EXPENSES</b>		
Program - educational services	2,257,074	1,587,084
General and administrative services	466,152	361,445
Fundraising	36	19,945
Total Expenses	2,723,262	1,968,474
<b>CHANGE IN NET ASSETS</b>	(4,138)	260,860
<b>NET ASSETS, beginning of year</b>	631,753	370,893
<b>NET ASSETS, end of year</b>	\$ 627,615	\$ 631,753

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

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2018**

	<u>Program - Educational Services</u>	<u>General and Administrative Services</u>	<u>Fundraising</u>	<u>Total</u>
<b>Personnel Costs</b>				
Salaries	\$ 1,077,991	\$ 184,232	\$ -	\$ 1,262,223
Retirement	19,539	2,545	-	22,084
Employee benefits	55,039	7,168	-	62,207
Payroll taxes	92,536	12,051	-	104,587
Professional development	69,588	-	-	69,588
Other staff expenses	13,486	1,757	-	15,243
Total Personnel Costs	<u>1,328,179</u>	<u>207,753</u>	<u>-</u>	<u>1,535,932</u>
<b>Direct Student Costs</b>				
Supplies and materials	32,281	-	-	32,281
Contracted instruction fees	166,125	-	-	166,125
Textbooks	17,230	-	-	17,230
Student assessments	3,108	-	-	3,108
Student food service program	66,326	-	-	66,326
Fieldwork and other transportation	2,917	-	-	2,917
Student scholarships	14,642	-	-	14,642
Other student costs	11,391	-	-	11,391
Total Direct Student Costs	<u>314,020</u>	<u>-</u>	<u>-</u>	<u>314,020</u>
<b>Occupancy Expense</b>				
Rent	312,562	40,702	-	353,264
Utilities and garbage removal	23,951	3,119	-	27,070
Contracted building services	62,443	8,132	-	70,575
Maintenance and repairs	39,981	5,207	-	45,188
Total Occupancy Expense	<u>438,937</u>	<u>57,160</u>	<u>-</u>	<u>496,097</u>
<b>Office Expense</b>				
Office supplies	11,350	1,478	-	12,828
Equipment rental	2,238	292	-	2,530
Telecommunication	22,642	2,949	-	25,591
Printing and publications	1,847	240	-	2,087
Postage and shipping	547	71	-	618
Total Office Expense	<u>38,624</u>	<u>5,030</u>	<u>-</u>	<u>43,654</u>
<b>General Expense</b>				
Insurance	-	19,308	-	19,308
Interest	8,492	1,106	-	9,598
Authorizer fees	-	25,401	-	25,401
Depreciation and amortization	76,664	9,984	-	86,648
Accounting	-	73,845	-	73,845
Legal	8,150	-	-	8,150
Professional fees	17,500	43,849	-	61,349
Computer support fees	15,498	2,019	-	17,517
Fees and licenses	-	8,930	36	8,966
Bad debt	-	7,705	-	7,705
Donated goods	11,010	-	-	11,010
Other general expenses	-	4,062	-	4,062
Total General Expense	<u>137,314</u>	<u>196,209</u>	<u>36</u>	<u>333,559</u>
Total Expenses	<u>\$ 2,257,074</u>	<u>\$ 466,152</u>	<u>\$ 36</u>	<u>\$ 2,723,262</u>

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

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2017**

	<u>Program - Educational Services</u>	<u>General and Administrative Services</u>	<u>Fundraising</u>	<u>Total</u>
<b>Personnel Costs</b>				
Salaries	\$ 773,792	\$ 112,500	\$ -	\$ 886,292
Retirement	26,916	3,914	-	30,830
Employee benefits	43,614	6,341	-	49,955
Payroll taxes	66,275	9,636	-	75,911
Professional development	27,298	-	-	27,298
Other staff expenses	6,396	1,830	-	8,226
Total Personnel Costs	<u>944,291</u>	<u>134,221</u>	<u>-</u>	<u>1,078,512</u>
<b>Direct Student Costs</b>				
Supplies and materials	41,217	-	-	41,217
Contracted instruction fees	49,124	-	-	49,124
Textbooks	3,665	-	-	3,665
Student assessments	1,520	-	-	1,520
Student food service program	51,454	-	-	51,454
Fieldwork and other transportation	2,377	-	-	2,377
Other student costs	8,871	-	-	8,871
Total Direct Student Costs	<u>158,228</u>	<u>-</u>	<u>-</u>	<u>158,228</u>
<b>Occupancy Expense</b>				
Rent	286,193	41,609	-	327,802
Utilities and garbage removal	24,353	3,639	-	27,992
Contracted building services	30,213	4,515	-	34,728
Maintenance and repairs	5,586	835	-	6,421
Total Occupancy Expense	<u>346,345</u>	<u>50,598</u>	<u>-</u>	<u>396,943</u>
<b>Office Expense</b>				
Office supplies	15,456	2,246	-	17,702
Equipment rental	1,241	181	-	1,422
Telecommunication	13,398	1,948	-	15,346
Printing and publications	973	141	-	1,114
Postage and shipping	2,004	291	-	2,295
Total Office Expense	<u>33,072</u>	<u>4,807</u>	<u>-</u>	<u>37,879</u>
<b>General Expense</b>				
Insurance	8,353	1,248	-	9,601
Interest	297	43	-	340
Authorizer fees	-	17,434	-	17,434
Depreciation and amortization	16,843	2,517	-	19,360
Accounting	-	52,686	-	52,686
Professional fees	-	12,000	-	12,000
Computer support fees	13,755	2,055	-	15,810
Donated services	60,025	79,200	19,800	159,025
Fees and licenses	-	1,036	145	1,181
Donated goods	5,875	-	-	5,875
Other general expenses	-	3,600	-	3,600
Total General Expense	<u>105,148</u>	<u>171,819</u>	<u>19,945</u>	<u>296,912</u>
Total Expenses	<u>\$ 1,587,084</u>	<u>\$ 361,445</u>	<u>\$ 19,945</u>	<u>\$ 1,968,474</u>

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



**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (4,138)	\$ 260,860
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	86,023	19,360
(Increase) decrease in assets:		
Grants receivable	1,435	371,588
Accounts receivable	16,352	(38,888)
Prepaid expenses	(155,709)	1,063
Security deposit	(32,511)	(24,770)
Increase (decrease) in liabilities:		
Accounts payable	1,962,042	19,779
Accrued expenses	203,331	37,534
Deferred rent	10,203	16,846
Net Cash Provided by Operating Activities	2,087,028	663,372
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(2,741,919)	(7,500)
Net Cash Used for Investing Activities	(2,741,919)	(7,500)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on capital lease obligation	(1,516)	-
Payment on loan	(166,614)	(250,000)
Funds received from loan	375,000	-
Net Cash Provided by (Used for) Financing Activities	206,870	(250,000)
<b>NET CHANGE IN CASH</b>	(448,021)	405,872
<b>CASH, beginning of year</b>	559,356	153,484
<b>CASH, end of year</b>	\$ 111,335	\$ 559,356
<b>CASH PAID FOR INTEREST</b>	\$ 10,223	\$ 340
<b>SUPPLEMENTAL DISCLOSURE OF NON CASH INFORMATION</b>		
Acquisition of equipment under capital lease	\$ -	\$ 6,695

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

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE A – ORGANIZATION AND PURPOSE**

Breakthrough Montessori Public Charter School (the “School”) was organized in February 2015 as a not-for-profit corporation dedicated to provide families in Washington, DC with a fully implemented, public Montessori program that enables children to develop within them the power to shape their lives and the world around them.

Effective July 1, 2016, the School entered into a fifteen-year Charter School Agreement with the District of Columbia Public Charter School Board. Under the terms of this agreement, the School will operate for students in grades pre-kindergarten three through pre-kindergarten four in its first academic year. In each of its succeeding academic years, the School may provide instruction to students through grade six.

The School’s first school year of operation was fall 2016 – spring 2017. The School seeks to graduate students with the academic and social skills necessary to excel in their future schools, complete post-secondary education, and build rewarding careers and vocations.

**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.

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the School. There were no temporarily or permanently restricted net assets as of June 30, 2018, and 2017.

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
continued

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

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.

Accounts and Grants Receivable

Accounts and grants receivable are recorded when billed and represent claims against third parties that will be settled in cash. Accounts and 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. 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

Property and equipment are stated at cost or estimated fair value at date of receipt, if donated. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. All property and equipment expenditures in excess of \$1,000 are capitalized. Maintenance and repairs which do not improve or extend the life of the respective asset are charged to expense when incurred.

Debt Issuance Cost

Costs incurred for the issuance of debt have been capitalized and are reported in the statements of financial position as a direct deduction from the related debt liability. Debt issuance costs are amortized as interest expense over the remaining period of the debt using the straight-line method, which approximates the effective interest method.

Per Pupil Appropriations

The School receives a student allocation on a per pupil basis from the District of Columbia to cover the cost of academic expenses. Per pupil appropriated revenue is recognized during the period for which the associated educational services are provided. Per pupil appropriated revenue

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
continued

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Per Pupil Appropriations (continued)

includes \$338,952 and \$91,495 for the years ended June 30, 2018 and 2017, respectively, for enhancements, such as special education, English language learners, and at risk students.

Deferred revenue result from per pupil appropriated revenue and other income received in the current fiscal year and deferred until the next fiscal year in which the service is provided.

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 statements 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.

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

Deferred Rental Liability

The School recognizes rent expenses, including incentives, on a straight-line basis over the term of the lease. Deferred rental liability represents the rent expense recognized on a straight-line basis in excess of cash payments.

Donated Services and Materials

Donated materials are recorded at fair value at the date of donation. Donated services are recognized at their fair value if the service requires specialized skills and the services would typically need to be purchased, if not donated. Contributed services and promises to give services that do not meet the above criteria are not recognized. The School received donated services, such as legal and Executive Director services, and donated goods in the amount of \$0 and \$11,010, respectively, for the year ended June 30, 2018 and \$159,025 and \$5,875, respectively for the year ended June 30, 2017.

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
continued

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

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

**NOTE C – INCOME TAXES**

The School is a 501(c)(3) tax exempt organization under Section 501(a) of the Internal Revenue Code. The School is, however, subject to tax on business income unrelated to its exempt purpose. The School is also exempt from the District of Columbia sales and property taxes. The School files information returns as required.

The School believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements or that would have an effect on its tax-exempt status. There are no unrecognized tax benefits or liabilities that need to be recorded.

The School’s information returns are subject to examination by the Internal Revenue Service for a period of three years from the date they were filed, except under certain circumstances. The School’s informational return for the year 2015 - 2016 are open for examination by the Internal Revenue Service, although no request has been made as of the date of these financial statements.

**NOTE D – LOAN PAYABLE**

On November 3, 2017, the School entered into an agreement with the DC Office of the State Superintendent of Education, (“OSSE”) for a loan amount of \$375,000 at an interest rate of 4.5% per annum to be repaid quarterly for the principal and interest amount of \$24,359. This loan has a maturity date of November 3, 2021. The balance of this loan as of June 30, 2018, totaled \$269,444.

Aggregate annual maturities of the loan are as follows for the years ending June 30:

2019	\$	86,761
2020		90,732
2021		91,951
	\$	<u>269,444</u>

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
continued

**NOTE D – LOAN PAYABLE - continued**

Long-term debt consists of the following as of June 30, 2018:

OSSE loan due 2021	\$	269,444
Less: Current installments		(86,761)
Less: Deferred financing costs net of accumulated amortization		(61,058)
		\$ 121,625

Interest of \$9,298 was expensed for the year ending June 30, 2018. The amortization of debt issuance cost as interest expense for the year ending June 30, 2018 was \$625.

Deferred financing cost and accumulated amortization are as follows as of June 30, 2018

Loan costs	\$	61,683
Accumulated amortization		(625)
Loan Costs, net		\$ 61,058

**NOTE E – PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment at June 30:

	2018	2017
Construction in progress	\$ 2,437,574	\$ -
Leasehold improvements	289,084	-
Furniture and fixtures	117,061	105,475
Computer equipment	21,106	17,432
Leased equipment	8,019	8,019
	2,872,844	130,926
Less accumulated depreciation and amortization	(105,382)	(19,360)
Property and Equipment, Net	\$ 2,767,462	\$ 111,566

Depreciation and amortization expense for the years ended June 30, 2018 and 2017, totaled \$86,023 and \$19,360, respectively. Accumulated amortization on leased equipment as of June 30, 2018 and 2017, totaled \$625 and \$0, respectively.

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
continued

**NOTE F – COMMITMENTS**

Operating Lease

On April 5, 2016, the School entered into a sublease agreement with another District of Columbia Public Charter School for use of its current facility at 1230-1246 Taylor Road, NW, Washington, DC. The sublease commenced August 1, 2016 and will expire July 30, 2021. The initial annual base rent is \$297,239 and payable monthly in advance. On each annual anniversary of the lease commencement date, base rent will increase by 3%.

Future minimum lease payments are as follows for the years ending June 30:

2019		\$ 314,575
2020		324,012
2021		333,733
2022		27,879
		\$ 1,000,199

Rent expense for the years ended June 30, 2018 and 2017 totaled \$496,097 and 396,943, respectively.

Capital Lease

During August 2016, the School entered into a lease on certain equipment that is scheduled to expire during August 2021. The gross cost of the leased asset totaled \$8,019. Future minimum lease payments for the equipment lease for the years ending June 30 are as follows:

2019		\$ 1,816
2020		1,816
2021		1,816
2022		151
		5,599
Less amount representing interest		(420)
Present Value of Minimum Lease Payments		\$ 5,179

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
continued

**NOTE G – RETIREMENT PLAN**

The School sponsors a SIMPLE IRA Plan for all employees. Employees may make elective deferred contributions from their eligible earnings, up to the amount allowed by the Internal Revenue Code. The School may make discretionary contributions equal to two percent of compensation to the SIMPLE IRA of each eligible employee who has at least \$5,000 in compensation for the calendar year up to a limit of three percent of the employees' compensation. The retirement plan expense for the years ended June 30, 2018 and 2017 totaled \$22,084 and \$30,830, respectively.

**NOTE H – CONCENTRATIONS OF RISK**

The School is supported primarily by local and federal appropriations and local grants. For the year ended June 30, 2018 and 2017, 96% and 89%, respectively, of 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.

As of June 30, 2018 and 2017, the School had cash that exceeded federally insured limits by approximately \$0 and \$250,000, respectively. Management has evaluated the financial institutions and does not believe it is exposed to any significant credit risk.

**NOTE I – RELATED PARTY TRANSACTION**

The School contracts with the National Center for Montessori in the Public Sector ("NCMPS") for coaching and summer institute services and in turn provide office space to NCMPS. The total amount paid to NCMPS totaled \$21,260 and \$24,000, respectively, during the years ended June 30, 2018 and 2017. The in-kind office space exchange for other services totaled \$17,500 for the year ending June 30, 2017. The Executive Director of NCMPS was also the Board Chair of the School during the year ending June 30, 2018 and the Executive Director for the year ending June 30, 2017. Additionally, one of the board members of the School is the Director of Coaching and School Services at NCMPS. No amounts were paid to either the Executive Director or the board member during the years ended June 30, 2018 and 2017.

**NOTE J – 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.



**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
continued

**NOTE K – SUBSEQUENT EVENTS**

On September 12, 2018, the School entered into four loan agreement with City First Bank of DC, Office of the Superintendent of Education and Building Hope for a sum of \$2,000,000 for the leasehold improvements of the School’s new facility at Eastern Avenue. In preparing these financial statements, the School’s management has evaluated events and transactions for potential recognition or disclosure through November 26, 2018, the date the financial statements were available to be issued. There are no other events, except as those disclosed in this paragraph that required further recognition or disclosure.



**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 Trustees  
Breakthrough 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 Breakthrough Montessori Public Charter School (the "School") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 26, 2018.

**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. We did identify deficiencies in internal controls, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002.

## **Response to Findings**

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Breakthrough Montessori Public Charter School's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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.

*Jane Marston & McQuade PA*

Washington, DC  
November 26, 2018

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2018**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of report issued on the financial statements Unmodified

Internal control over financial reporting:

Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weakness?	Yes
Noncompliance material to financial statements noted?	No

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**Finding 2018-001 – Lack of controls over cash disbursements**

Conditions

During the audit we noted that controls over cash disbursements were not fully effective. Three of the twenty-five disbursements tested, did not have proper back up in the form of invoices, bills or agreements with the vendor to whom the payment was being made.

Cause

The cause of this control deficiency was a lack of proper filing during the movement of the School to new premises at the end of the fiscal year 2018.

Criteria

Under CFR 200.2, costs should be supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period.

Effect

The School did not comply with the Allowable costs principle under 2 CFR Part 200. The effect of this noncompliance was not material to the financial statements.

Questioned Costs

None

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2018**

**SECTION II – FINANCIAL STATEMENTS FINDINGS - continued**

**Finding 2018-001 – Lack of controls over cash disbursements** – (continued)

Recommendations

We recommend that client maintain all back up in compliance with the requirement of the Government Accounting Standards.

Management Response

The school moved to a second location this summer and some documents were misplaced during the process.

**Finding 2018-002 – Lack of controls over employment records**

Conditions

During the audit we noted that controls over employment records were not in place. Of the ten employees tested, three did not have proper employee documentation.

Cause

The cause of this control deficiency was a lack of proper filing during the movement of the School to new premises at the end of the fiscal year 2018.

Criteria

Under CFR 200.2, costs should be supported by appropriate documentation, such as offer letters, employment agreements, background checks, Form I-9.

Effect

The School did not comply with the Allowable costs principle under 2 CFR Part 200. The effect of this noncompliance was not material to the financial statements.

Questioned Costs

None

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2018**

**SECTION II – FINANCIAL STATEMENTS FINDINGS - continued**

**Finding 2018-002 – Lack of controls over cash disbursements – (continued)**

Recommendations

We recommend that client maintain all employee records in compliance with the requirement of the Government Accounting Standards.

Management Response

The school moved to a second location this summer and some documents were misplaced during the process.

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

None