

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL

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

JUNE 30, 2019 AND 2018

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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, 2019 and 2018, 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.

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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules on pages 24-25, as required by D.C. Public Charter School Board ("DCPCSB"), are the responsibility of management, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Jane Warner & M^aQuade PA

November 25, 2019
Washington, DC

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

<u>ASSETS</u>		
	2019	2018
CURRENT ASSETS		
Cash	\$ 811,498	\$ 111,335
Grants receivable	-	3,918
Accounts receivable	50,266	36,024
Prepaid expenses	50,589	158,132
Total Current Assets	912,353	309,409
NONCURRENT ASSETS		
Property and equipment, net	4,702,843	2,767,462
Security deposit	21,435	57,281
Total Noncurrent Assets	4,724,278	2,824,743
TOTAL ASSETS	\$ 5,636,631	\$ 3,134,152
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES		
Accounts payable	\$ 62,267	\$ 2,025,058
Accrued expenses	52,218	240,865
Loans payable, current portion	31,927	86,761
Capital lease obligations, current portion	1,675	1,816
Deferred rent, current portion	8,396	-
Total Current Liabilities	156,483	2,354,500
NONCURRENT LIABILITIES		
Loans payable, net of current portion	4,984,503	121,625
Capital lease obligations, net of current portion	1,911	3,363
Deferred rent, net of current portion	248,841	27,049
Total Noncurrent Liabilities	5,235,255	152,037
Total Liabilities	5,391,738	2,506,537
NET ASSETS		
Without donor restrictions	244,893	627,615
Total Net Assets	244,893	627,615
TOTAL LIABILITIES AND NET ASSETS	\$ 5,636,631	\$ 3,134,152

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

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
REVENUE AND SUPPORT		
Per pupil appropriations	\$ 3,021,608	\$ 2,107,053
Per pupil facility allowance	597,129	411,862
Federal entitlements and grants	140,654	94,043
Other grants and contributions	28,077	3,596
Donated services and materials	51,770	11,010
Program service fees	170,781	91,560
Total Revenue and Support	4,010,019	2,719,124
EXPENSES		
Program - educational services	3,811,909	2,257,074
General and administrative services	548,526	466,152
Fundraising	32,306	36
Total Expenses	4,392,741	2,723,262
CHANGE IN NET ASSETS	(382,722)	(4,138)
NET ASSETS, without donor restrictions, beginning of year	627,615	631,753
NET ASSETS, without donor restrictions, end of year	\$ 244,893	\$ 627,615

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

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	<u>Program - Educational Services</u>	<u>General and Administrative Services</u>	<u>Fundraising</u>	<u>Total</u>
Personnel Costs				
Salaries	\$ 1,624,644	179,226	\$ 16,000	\$ 1,819,870
Retirement	18,187	2,007	179	20,373
Employee benefits	125,475	13,840	1,236	140,551
Payroll taxes	147,066	16,224	1,448	164,738
Professional development	6,783	-	-	6,783
Other staff expenses	16,873	-	-	16,873
Total Personnel Costs	<u>1,939,028</u>	<u>211,297</u>	<u>18,863</u>	<u>2,169,188</u>
Direct Student Costs				
Supplies and materials	119,185	-	-	119,185
Contracted instruction fees	299,851	-	-	299,851
Textbooks	6,019	-	-	6,019
Student assessments	1,584	-	-	1,584
Student food service program	87,435	-	-	87,435
Other student costs	2,078	-	-	2,078
Total Direct Student Costs	<u>516,152</u>	<u>-</u>	<u>-</u>	<u>516,152</u>
Occupancy Expense				
Rent	535,803	59,108	5,277	600,188
Utilities and garbage removal	47,493	5,239	468	53,200
Contracted building services	126,761	13,984	1,248	141,993
Maintenance and repairs	17,054	1,881	168	19,103
Total Occupancy Expense	<u>727,111</u>	<u>80,212</u>	<u>7,161</u>	<u>814,484</u>
Office Expense				
Office supplies	28,593	3,154	282	32,029
Equipment rental	9,593	1,058	94	10,745
Telecommunication	30,638	3,380	302	34,320
Printing and publications	86	9	1	96
Postage and shipping	64	7	1	72
Total Office Expense	<u>68,974</u>	<u>7,608</u>	<u>680</u>	<u>77,262</u>
General Expense				
Insurance	-	28,094	-	28,094
Interest	222,513	24,547	2,191	249,251
Authorizer fees	-	33,995	-	33,995
Depreciation and amortization	233,331	25,740	2,298	261,369
Accounting	-	84,244	-	84,244
Legal	12,178	-	-	12,178
Professional fees	22,853	2,521	225	25,599
Computer support fees	17,994	1,985	177	20,156
Donated services	31,260	-	-	31,260
Fees and licenses	-	39,597	711	40,308
Donated goods	20,515	-	-	20,515
Other general expenses	-	8,686	-	8,686
Total General Expense	<u>560,644</u>	<u>249,409</u>	<u>5,602</u>	<u>815,655</u>
Total Expenses	<u>\$ 3,811,909</u>	<u>\$ 548,526</u>	<u>\$ 32,306</u>	<u>\$ 4,392,741</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, 2018**

	<u>Program - Educational Services</u>	<u>General and Administrative Services</u>	<u>Fundraising</u>	<u>Total</u>
Personnel Costs				
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>
Direct Student Costs				
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>
Occupancy Expense				
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>
Office Expense				
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>
General Expense				
Insurance	-	19,308	-	19,308
Interest	8,492	1,731	-	10,223
Authorizer fees	-	25,401	-	25,401
Depreciation and amortization	76,664	9,359	-	86,023
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
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (382,722)	\$ (4,138)
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation and amortization	261,369	86,023
Amortization of debt issuance cost	40,726	625
(Increase) decrease in assets:		
Grants receivable	3,918	1,435
Accounts receivable	(14,242)	16,352
Prepaid expenses	107,543	(155,709)
Security deposit	35,846	(32,511)
Increase (decrease) in liabilities:		
Accounts payable	(1,962,791)	1,962,042
Accrued expenses	(188,647)	203,331
Deferred rent	230,188	10,203
Net Cash (Used for) Provided by Operating Activities	(1,868,812)	2,087,653
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,196,750)	(2,742,544)
Net Cash Used for Investing Activities	(2,196,750)	(2,742,544)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on capital lease obligation	(1,593)	(1,516)
Payment on loan	(269,444)	(104,931)
Debt issuance cost	(192,738)	(61,683)
Proceeds from loan	5,229,500	375,000
Net Cash Provided by Financing Activities	4,765,725	206,870
NET CHANGE IN CASH	700,163	(448,021)
CASH, beginning of year	111,335	559,356
CASH, end of year	\$ 811,498	\$ 111,335
CASH PAID FOR INTEREST	\$ 208,525	\$ 9,598

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

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 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.

Adoption of New Accounting Pronouncement

For the year ended June 30, 2019, Breakthrough Montessori Public Charter School adopted the Financial Accounting Standards Board’s Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net assets classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the change to the net assets classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Statement Presentation

Financial statement presentation follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Financial Statements of Not-For-Profit organizations. In accordance with the topic, net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the School and/or the passage of time or that must be maintained permanently by the School. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash include highly liquid investments with an original maturity of three months. The School maintains its cash in bank deposit accounts which may, at times, exceed federally insured limits. The School believes it is not exposed to any significant credit risk on cash or cash equivalents.

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.

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Accounts and Grants Receivable (continued)

If actual experience changes, revisions to the allowance may be necessary. Past due grant receivables 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. Leasehold improvements are amortized over the lesser of their useful life or the lease term. 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.

Deferred Rent

Rent expense is recognized on a straight-line basis over the term of the lease. Deferred rent represents rent expense in excess of cash payments since commencement of the lease agreement, and free rent provided by the landlord. These are being deferred over the remaining period of the lease.

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 includes \$568,498 and \$338,952 for the years ended June 30, 2019 and 2018, 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.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition

Contributions received are recorded as increases in net assets with or without donor restrictions, 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 contributions without donor restrictions

Federal entitlements and grants revenues are received primarily from the District of Columbia Government. The grants are subject to audit 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.

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.

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 \$31,260 and \$20,510, respectively, for the year ended June 30, 2019 and \$0 and \$11,010, respectively for the year ended June 30, 2018.

Method Used for Allocation of Expenses from Management and General Activities

The financial statements report certain categories of expenses that are attributable to more than one program or a supporting function such as management and general activities. Expenses of this nature are allocated on a reasonable basis that is consistently applied. Allocated expenses include depreciation and amortization, office and occupancy costs, salaries and benefits, and other general organizational costs which are allocated on the basis of time worked.

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

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 years ended June 30, 2016 through 2018, 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 – AVAILABLE RESOURCES AND LIQUIDITY

The School regularly monitors liquidity required to meet its operating needs and other commitments, while also striving to prudently invest available funds. The School’s sources of liquidity at its disposal include cash and receivables.

In addition to financial assets available to meet general expenditures over the next 12 months, the School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. The following reflects the School’s financial assets as of June 30:

	<u>2019</u>	<u>2018</u>
Cash	\$ 811,498	\$ 111,335
Current receivables	<u>50,266</u>	<u>39,942</u>
Total Financial Assets	<u>861,764</u>	<u>151,277</u>
Total Financial Assets Available to meet Cash Needs for General Expenditures Within One Year	<u>\$ 861,764</u>	<u>\$ 151,277</u>

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE E – PROPERTY AND EQUIPMENT

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

	2019	2018
Construction in progress	\$ -	\$ 2,437,574
Leasehold improvements	4,873,234	289,084
Furniture and fixtures	137,179	117,061
Computer equipment	50,941	21,106
Leased equipment	8,019	8,019
	5,069,373	2,872,844
Less accumulated depreciation and amortization	(366,530)	(105,382)
Property and Equipment, Net	\$ 4,702,843	\$ 2,767,462

Depreciation and amortization expense for the years ended June 30, 2019 and 2018, totaled \$261,369 and \$86,023, respectively.

NOTE F – LOANS 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. This loan was paid off in full of March 15, 2018.

On September 12, 2018, the School entered into an agreement with the City First Bank of D.C., N.A, (the “Bank”) for a loan amount of \$1,942,000. The interest rate shall be fixed at 5.293% per annum. Quarterly payments of interest and principal are due based on a 25-year amortization schedule beginning in October 2019. This loan matures on June 12, 2023. This loan is secured by the School’s real or personal tangible property including accounts receivable, inventory, equipment, goods and investments and all bank and depository accounts. The balance of this loan as of June 30, 2019, totaled \$1,942,000.

On September 12, 2018, the School entered into another agreement with the City First Bank of D.C., N.A, (the “Bank”) for a loan amount of \$537,500. The interest rate shall be fixed at 3.25% per annum to be determined by a margin of 165 basis points above the 5-year CDAR rate. This loan matures on June 12, 2023. This loan is secured by the same assets as the loan above. The balance of this loan as of June 30, 2019, totaled \$537,500. Building Hope has provided a credit enhancement of \$537,500.

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE F– LOANS PAYABLE - continued

A debt service coverage ratio of at least 1.15:1 is required under the conditions of this loan. The School was in compliance with this ratio as of June 30, 2019.

On September 12, 2018, the School entered into an agreement with the DC Office of the State Superintendent of Education, (“OSSE”) through its Office of Public Charter School Financing and Support (“OPCSFS”) for a loan amount of \$2,000,000 to finance leasehold improvements and renovations of its new campus on Eastern Avenue, Washington, D.C. The interest rate shall be 4.5% per annum to be repaid in quarterly interest payments until October 2021 at which time payments of principal and interest are due quarterly until maturity. This loan matures on September 12, 2023. OPCSFS shall have a second priority lien on all lease and rents from the property and this lien will be subordinate to the Bank mentioned above. The balance of this loan as of June 30, 2019, totaled \$2,000,000.

On September 11, 2018, the School entered into another agreement with the Building Hope for a loan amount of \$750,000. The interest rate shall be 6% per annum to be repaid quarterly for interest payments only. Outstanding principal loan and any accrued interest will be due upon maturity on September 11, 2023. The balance of this loan as of June 30, 2019, totaled \$750,000.

Following is the summary of the loans for the years ending June 30:

	<u>2019</u>	<u>2018</u>
City First Bank of DC	\$ 1,942,000	\$ -
City First Bank of DC	537,500	-
Office of Public Charter School Financing and Support	2,000,000	269,444
Building Hope	750,000	-
Total	<u>5,229,500</u>	<u>269,444</u>
Less: Current portion	(31,927)	(86,761)
Less: Debt issuance costs	(213,070)	(61,058)
Loans Payable, Net	<u>\$ 4,984,503</u>	<u>\$ 121,625</u>

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE F– LOANS PAYABLE - continued

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

2020	\$	31,927
2021		40,144
2022		98,405
2023		2,426,303
2024		2,632,721
		\$ 5,229,500

Interest expense totaled \$249,251 and \$10,223 for the years ending June 30, 2019 and 2018, respectively and included amortization of debt issuance costs of \$40,726 and \$625, respectively.

Debt issuance costs and accumulated amortization are as follows as of June 30, 2019 and 2018

	2019	2018
Debt issuance costs	\$ 254,421	\$ 61,683
Accumulated amortization	(41,351)	(625)
Debt Issuance Costs, net	\$ 213,070	\$ 61,058

NOTE G – 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%.

On March 27, 2018, the School entered into another sublease agreement for use of the space at 6856 Eastern Avenue, NW, Washington, DC. The sublease commenced September 1, 2018 and will expire August 31, 2043. The initial annual base rent is \$210,128 and payable monthly in advance. On each annual anniversary of the lease commencement date, base rent will increase by 2%. The landlord has also granted rent abatement for the first eighteen months of this lease.

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE G – COMMITMENTS - continued

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

	2020	\$	324,012
	2021		405,707
	2022		247,747
	2023		225,365
	2024		269,655
Thereafter			5,725,588
			\$ 7,198,074

Rent expense for the years ended June 30, 2019 and 2018 totaled \$814,484 and 496,097, 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:

	2020	\$	1,816
	2021		1,816
	2022		151
			3,783
Less amount representing interest			(197)
Present Value of Minimum Lease Payments			\$ 3,586

NOTE H – 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, 2019 and 2018 totaled \$20,373 and \$22,084, respectively.

BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE I – CONCENTRATIONS OF RISK

The School is supported primarily by local and federal appropriations and local grants. For the year ended June 30, 2019 and 2018, 95% and 96%, respectively, of total revenue was provided by one government agency. 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, 2019 and 2018, the School had cash that exceeded federally insured limits by approximately \$308,000 and \$0, respectively. Management has evaluated the financial institutions and does not believe it is exposed to any significant credit risk.

NOTE J – RELATED PARTY TRANSACTION

The School contracts with the National Center for Montessori in the Public Sector ("NCMPS") for coaching and summer institute services. The total amount paid to NCMPS totaled \$0 and \$21,260, respectively, during the years ended June 30, 2019 and 2018. The Executive Director of NCMPS was also the Board Chair of the School during the year ending June 30, 2019 and the Executive Director for the year ending June 30, 2018. Additionally, one of the board members of the School is the Director of Coaching and School Services at NCMPS and another board member is the Director of Professional Learning for NCMPS. No amounts were paid to either the Executive Director or the board members during the years ended June 30, 2019 and 2018.

NOTE K – 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 statement.

NOTE L – SUBSEQUENT EVENTS

In preparing these financial statements, the School's management has evaluated events and transactions for potential recognition or disclosure through November 25, 2019, the date the financial statements were available to be issued. There are no other events 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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2019.

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.

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 consolidated 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.

Jane Maruca & McQuade PA

Washington, DC
November 25, 2019

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019**

SECTION I - SUMMARY OF PRIOR YEAR 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 IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Finding 2018-001 – Lack of controls over cash disbursements

Conditions

During the 2018 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, 2019**

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT 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.

Status

Resolved

Finding 2018-002 – Lack of controls over employment records

Conditions

During the 2018 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, 2019**

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT 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.

Status

Resolved

**SUPPLEMENTAL SCHEDULES REQUIRED
BY DCPCSB**

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
SUPPLEMENTAL SCHEDULE OF VENDORS PAID OVER \$25,000
YEAR ENDED JUNE 30, 2019**

<u>Vendor Name</u>	<u>Services Provided</u>	<u>Amount Paid</u>
Bridges Public Charter School	Rent	397,027
Building Hope	Interest on loans	36,125
City First Bank of D.C., N.A.	Interest on loans	100,163
DC Health Link	Health insurance	81,909
DC Public Charter School Board	Authorization fee	33,995
DC Treasurer	Interest on loans	78,321
Douglas Development Corporation	Utilities and property taxes	59,356
EDOPS	Financial services	59,390
Estrellitas' Smile	Instruction services	35,755
Heavenly Edibles & Stuff, LLC	Student meals	84,517
Heutink USA	Classroom supplies	42,243
JPM Janitorial Services, LLC	Janitorial Services	124,944
Metropolitan Office Products, LLC	Copier Leases	28,997
The insurance Exchange	Insurance	28,094
Young and Well	Special Education Services	143,032

Note: The above schedule includes all vendors/contractors paid equal to or greater than or \$25,000 for which either a formal contract was executed or no formal contract was entered into, executed or negotiated.

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL
SUPPLEMENTAL SCHEDULE OF VENDOR CONTRACTS AWARDED OVER \$25,000
YEAR ENDED JUNE 30, 2019**

<u>Vendor Name</u>	<u>Services Provided</u>	<u>Approximate</u>
Pristine	Janatorial services	\$ 67,123

Note: The above schedule includes only those contracts entered into by the School as of June 30, 2019 for services that will equal to or amount to more than \$25,000 over the term of the contract, services have not begun, nor had anything been paid as of June 30, 2019.