

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**

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

**JUNE 30, 2020 AND 2019**

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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, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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, 2020 and 2019, 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 24, 2020, 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, 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.

## **Emphasis of Matter**

As discussed in Note B to the financial statements, in fiscal year 2020 Breakthrough Montessori Public Charter School adopted new accounting guidance, Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, ASU 2018-08 and *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

*Jane Warner & M<sup>a</sup>Quade PA*

November 24, 2020  
Washington, DC

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2020 AND 2019**

<u><b>ASSETS</b></u>		
	2020	2019
<b>CURRENT ASSETS</b>		
Cash	\$ 1,765,219	\$ 811,498
Grants receivable	47,909	-
Accounts receivable	71,432	50,266
Prepaid expenses	67,229	50,589
Total Current Assets	1,951,789	912,353
<b>NONCURRENT ASSETS</b>		
Property and equipment, net	4,472,819	4,702,843
Security deposit	24,770	21,435
Total Noncurrent Assets	4,497,589	4,724,278
<b>TOTAL ASSETS</b>	\$ 6,449,378	\$ 5,636,631
<u><b>LIABILITIES AND NET ASSETS</b></u>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 78,333	\$ 62,267
Accrued expenses	191,901	52,218
Loans payable, current portion	1,950	31,927
Capital lease obligations, current portion	5,910	1,675
Deferred revenue	2,952	-
Total Current Liabilities	281,046	148,087
<b>NONCURRENT LIABILITIES</b>		
Loans payable, net of current portion	5,440,659	4,984,503
Capital lease obligations, net of current portion	4,887	1,911
Deferred rent	452,024	257,237
Total Noncurrent Liabilities	5,897,570	5,243,651
Total Liabilities	6,178,616	5,391,738
<b>NET ASSETS</b>		
Without donor restrictions	268,762	244,893
With donor restrictions	2,000	-
Total Net Assets	270,762	244,893
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 6,449,378	\$ 5,636,631

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

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	Without Donor Restrictions	With Donor Restrictions	2020	2019 Without Donor Restrictions
<b>REVENUE AND SUPPORT</b>				
Per pupil appropriations	\$ 3,840,010	\$ -	\$ 3,840,010	\$ 3,021,608
Per pupil facility allowance	750,375	-	750,375	597,129
Program service fees	150,977	-	150,977	170,781
Federal entitlements and grants	130,057	-	130,057	140,654
Donated services and materials	22,382	-	22,382	51,770
Other grants and contributions	15,959	2,000	17,959	32,789
Interest income	3,405	-	3,405	1,274
Loss on sale of asset	(1,580)	-	(1,580)	(5,986)
Total Revenue and Support	<u>4,911,585</u>	<u>2,000</u>	<u>4,913,585</u>	<u>4,010,019</u>
<b>EXPENSES</b>				
Program - educational services	4,236,168	-	4,236,168	3,811,909
General and administrative services	629,699	-	629,699	548,526
Fundraising	21,849	-	21,849	32,306
Total Expenses	<u>4,887,716</u>	<u>-</u>	<u>4,887,716</u>	<u>4,392,741</u>
<b>CHANGE IN NET ASSETS</b>	23,869	2,000	25,869	(382,722)
<b>NET ASSETS, beginning of year</b>	<u>244,893</u>	<u>-</u>	<u>244,893</u>	<u>627,615</u>
<b>NET ASSETS, end of year</b>	<u><u>268,762</u></u>	<u><u>2,000</u></u>	<u><u>\$ 270,762</u></u>	<u><u>\$ 244,893</u></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, 2020**

	<b>Program - Educational Services</b>	<b>General and Administrative Services</b>	<b>Fundraising</b>	<b>Total</b>
<b>Personnel Costs</b>				
Salaries	\$ 1,847,275	224,820	\$ 11,612	\$ 2,083,707
Retirement	16,281	1,982	102	18,365
Employee benefits	101,178	12,344	739	114,261
Payroll taxes	169,599	20,641	1,066	191,306
Professional development	69,017	-	-	69,017
Other staff expenses	26,014	-	-	26,014
Total Personnel Costs	<u>2,229,364</u>	<u>259,787</u>	<u>13,519</u>	<u>2,502,670</u>
<b>Direct Student Costs</b>				
Supplies and materials	95,111	-	-	95,111
Contracted instruction fees	307,063	-	-	307,063
Textbooks	8,721	-	-	8,721
Student assessments	3,534	-	-	3,534
Student food service program	78,586	-	-	78,586
Student scholarships	34,222	-	-	34,222
Other student costs	11,209	-	-	11,209
Total Direct Student Costs	<u>538,446</u>	<u>-</u>	<u>-</u>	<u>538,446</u>
<b>Occupancy Expense</b>				
Rent	629,927	76,665	3,960	710,552
Utilities and garbage removal	43,271	5,267	272	48,810
Contracted building services	89,395	10,879	562	100,836
Maintenance and repairs	30,964	3,639	188	34,791
Total Occupancy Expense	<u>793,557</u>	<u>96,450</u>	<u>4,982</u>	<u>894,989</u>
<b>Office Expense</b>				
Office supplies	20,432	2,487	128	23,047
Equipment rental	5,591	681	35	6,307
Telecommunication	32,378	3,940	204	36,522
Printing and publications	3,463	421	22	3,906
Postage and shipping	487	59	2	548
Total Office Expense	<u>62,351</u>	<u>7,588</u>	<u>391</u>	<u>70,330</u>
<b>General Expense</b>				
Insurance	-	33,060	-	33,060
Interest	273,063	33,233	1,717	308,013
Authorizer fees	-	44,929	-	44,929
Depreciation and amortization	262,779	33,142	491	296,412
Accounting	-	93,153	-	93,153
Legal	11,100	-	-	11,100
Professional fees	21,440	2,609	135	24,184
Computer support fees	21,686	2,640	136	24,462
Fees and licenses	-	23,108	478	23,586
Donated goods	22,382	-	-	22,382
Total General Expense	<u>612,450</u>	<u>265,874</u>	<u>2,957</u>	<u>881,281</u>
Total Expenses	<u>\$ 4,236,168</u>	<u>\$ 629,699</u>	<u>\$ 21,849</u>	<u>\$ 4,887,716</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, 2019**

	<u>Program - Educational Services</u>	<u>General and Administrative Services</u>	<u>Fundraising</u>	<u>Total</u>
<b>Personnel Costs</b>				
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>
<b>Direct Student Costs</b>				
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>
<b>Occupancy Expense</b>				
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>
<b>Office Expense</b>				
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>
<b>General Expense</b>				
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  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 25,869	\$ (382,722)
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation and amortization	296,412	261,369
Amortization of debt issuance cost	50,134	40,726
Loss from sale of asset	(1,580)	(5,986)
(Increase) decrease in assets:		
Grants receivable	(47,909)	3,918
Accounts receivable	(21,166)	(14,242)
Prepaid expenses	(16,640)	107,543
Security deposit	(3,335)	35,846
Increase (decrease) in liabilities:		
Accounts payable	16,066	(1,962,791)
Accrued expenses	139,683	(188,647)
Deferred rent	194,787	230,188
Deferred revenue	2,952	-
Net Cash Provided by (Used for) Operating Activities	632,321	(1,874,798)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(52,296)	(2,190,764)
Net Cash Used for Investing Activities	(52,296)	(2,190,764)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligation	(2,349)	(1,593)
Payment on loan	(1,049)	(269,444)
Debt issuance cost	-	(192,738)
Proceeds from loan	377,094	5,229,500
Net Cash Provided by Financing Activities	373,696	4,765,725
<b>NET CHANGE IN CASH</b>	953,721	700,163
<b>CASH, beginning of year</b>	811,498	111,335
<b>CASH, end of year</b>	\$ 1,765,219	\$ 811,498
<b>CASH PAID FOR INTEREST</b>	\$ 257,879	\$ 208,525
<b>SUPPLEMENTAL DISCLOSURE OF NON CASH INFORMATION</b>		
Acquisition of equipment under capital lease	\$ (12,512)	\$ -

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

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**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

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 606, ASU 2014-09 *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The School has implemented Topic 606 and has adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effect on net assets.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The School has implemented the provisions of

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

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

Adoption of New Accounting Pronouncement -continued

ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

Financial Statement Presentation

Financial statement presentation follows Financial Accounting Standards Board Accounting Standards Codification 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.

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

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

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 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.

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

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

Revenue Recognition

*Grants and Contributions*

The School recognize grants and contributions when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Contributions received with donor stipulations are recorded as contributions with donor restrictions based on the donor's intent. Unless otherwise stated by the donor, individual donations are recorded as contributions without donor restrictions. Contributions with donor restrictions that are met in the same reporting period as the contribution is received are reported as contributions without donor restrictions support.

*Per Pupil Appropriations, Facilities Allowance, and Federal Entitlements, and Other Government Grants*

Revenues are received primarily from state and federal government agencies, including the District of Columbia Office of the State Superintendent of Education, District of Columbia Public Charter School Board, the U.S. Department of Education, Medicaid, and other agencies. These revenues are considered conditional grants with a measurable performance or other barrier and a right of return and are not recognized until the conditions on which they depend have been substantially met. These grants are also subject to audit by the grantor agencies, which could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

Per pupil appropriation revenue includes \$726,324 and \$570,826 for the years ended June 30, 2020 and 2019, respectively, for enhancements, such as special education, English language learners, and at risk students.

As of June 30, 2020, the School received a conditional promise to give in the amount of \$89,209 that is expected to be fulfilled within the year following the School's 2020 fiscal year-end.

*Program Service Fees*

Program service fees are revenue primarily derived from before and after-care programs, paid meal plans, and various student activities (e.g., fieldtrips, intramural sports, special events, etc.), which is recognized when the services are provided.

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

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

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, in the amount of \$- and \$31,260, respectively, and donated good in the amount of \$22,382 and \$20,510 for the years ended June 30, 2020 and 2019, respectively.

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.

Reclassifications

Certain amounts for the year ended June 30, 2019 have been reclassified to conform to the current year presentation. The reclassification had no effect on the previously reported net assets or change in net assets.

**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, 2017 through 2019, are open for examination by the Internal Revenue Service, although no request has been made as of the date of these financial statements.

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**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>2020</u>	<u>2019</u>
Cash	\$ 1,765,219	\$ 811,498
Current receivables	119,341	50,266
Total Financial Assets	<u>1,884,560</u>	<u>861,764</u>
Less: Net assets with donor restriction	<u>(2,000)</u>	<u>-</u>
Total Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 1,882,560</u>	<u>\$ 861,764</u>

**NOTE E – PROPERTY AND EQUIPMENT**

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

	<u>2020</u>	<u>2019</u>
Construction in progress	\$ 23,556	\$ -
Leasehold improvements	4,900,490	4,873,234
Furniture and fixtures	131,144	137,179
Computer equipment	55,586	50,941
Leased equipment	20,531	8,019
	<u>5,131,307</u>	<u>5,069,373</u>
Less accumulated depreciation and amortization	<u>(658,488)</u>	<u>(366,530)</u>
Property and Equipment, Net	<u>\$ 4,472,819</u>	<u>\$ 4,702,843</u>

Depreciation and amortization expense for the years ended June 30, 2020 and 2019, totaled \$296,412 and \$261,369, respectively.

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE F – LOANS PAYABLE**

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, 2020 and 2019, totaled \$1,940,951 and \$ 1,942,000 respectively.

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, 2020 and 2019, totaled \$537,500 and \$537,500, respectively. Building Hope has provided a credit enhancement of \$537,500.

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, 2020.

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, 2020 and 2019, totaled \$2,000,000 and \$2,000,000, respectively.

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, 2020, totaled \$750,000.

On April 20, 2020, the School secured \$377,094 with City First Bank of D.C., (the “Lender”) under the Small Business Administration’s Paycheck Protection Plan (“PPP”) that authorized forgivable loans to small businesses. This loan can be used to cover certain expenses during the COVID-19 crisis. The loan amounts will be forgiven as long as the loan proceeds are used to cover payroll costs, rent, certain mortgage interest and utility costs over a period specified in the loan document after the loan is made. If not used for the purpose above and if the SBA does not confirm forgiveness of the loan, the School will be obligated to repay the Lender the total outstanding balance in terms with a separate agreement provided by the Lender and the entire



**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE F– LOANS PAYABLE -continued**

loan is due on April 20, 2022 along with interest calculated at the rate of 1% per annum starting November 20, 2020. The PPP loan balance for the year ended June 30, 2020, totaled \$377,094.

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

	<u>2020</u>	<u>2019</u>
City First Bank of DC	\$ 1,940,951	\$ 1,942,000
City First Bank of DC	537,500	537,500
Office of Public Charter School		
Financing and Support	2,000,000	2,000,000
Building Hope	750,000	750,000
PPP SBA	377,094	-
Total	<u>5,605,545</u>	<u>5,229,500</u>
Less: Current portion	(1,950)	(31,927)
Less: Debt issuance costs	(162,936)	(213,070)
Loans Payable, Net	<u>\$ 5,440,659</u>	<u>\$ 4,984,503</u>

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

2021	\$ 1,950
2022	435,215
2023	2,535,659
2024	<u>2,632,721</u>
	<u>\$ 5,605,545</u>

Interest expense totaled \$308,013 and \$249,251 for the years ending June 30, 2020 and 2019, respectively and included amortization of debt issuance costs of \$50,134 and \$40,726, respectively.

Debt issuance costs and accumulated amortization were as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Debt issuance costs	\$ 254,421	\$ 254,421
Accumulated amortization	(91,485)	(41,351)
Debt Issuance Costs, Net	<u>\$ 162,936</u>	<u>\$ 213,070</u>

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**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.

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

2021	\$ 553,601
2022	253,243
2023	580,127
2024	626,368
2025	642,028
Thereafter	14,846,985
	<u>\$ 17,502,352</u>

Rent expense for the years ended June 30, 2020 and 2019 totaled \$710,552 and \$600,126, respectively.

Capital Lease

During 2016 and 2020, the School entered into lease agreements on certain equipment that are scheduled to expire during August 2021 and July 2022. The total cost of the leased assets totaled \$20,531. The following are the future minimum lease payments for the equipment lease for the years ending June 30:

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE G – COMMITMENTS - continued**

	2021		\$	6,316
	2022			4,651
	2023			375
				11,342
Less: amount representing interest				(545)
Present Value of Minimum Lease Payments			\$	10,797

**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, 2020 and 2019, totaled \$18,365 and \$20,373, respectively.

**NOTE I – CONCENTRATIONS OF RISK**

The School is supported primarily by local and federal appropriations and local grants. For the year ended June 30, 2020 and 2019, 97% and 95%, 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, 2020 and 2019, the School had cash that exceeded federally insured limits by approximately \$1,300,000 and \$300,000, 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 \$14,435 and \$0, respectively, during the years ended June 30, 2020 and 2019. The Executive Director of NCMPS was also the Board Chair of the School during the years ending June 30, 2020 and 2019, respectively. 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, 2020 and 2019.

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**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 24, 2020, 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, 2020, 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 24, 2020.

**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 Marissa & M<sup>o</sup>Quade PA*

Washington, DC  
November 24, 2020

**SUPPLEMENTAL SCHEDULES REQUIRED  
BY DCPCSB**

**BREAKTHROUGH MONTESSORI PUBLIC CHARTER SCHOOL  
SUPPLEMENTAL SCHEDULE OF VENDORS PAID OVER \$25,000  
YEAR ENDED JUNE 30, 2020**

<u>Vendor Name</u>	<u>Services Provided</u>	<u>Amount Paid</u>
Building Hope	Interest payments for loans	\$ 47,000
Bridges Public Charter School	Rent for Petworth campus	403,446
City First Bank	Interest payments for loans	122,239
DC Health Link	Healthcare provider for employees	129,563
DC Treasurer	Interest payments for loans	105,050
Douglas Development Corporation	Rent & utilities for Takoma campus	145,987
DC Public Charter School Board	Authorizer Fees	45,579
EdOps	Accounting Services	75,320
Heavenly Edibles & Stuff, LLC	Student meals vendor	75,860
Kellermeyer Bergensons Services LLC	Janitorial services for both campuses	66,789
Onyx Therapy Group	Contracted special education services	43,068
Swing Education, Inc	Substitute services	50,094
Young & Well	Contracted special education services	124,566

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, 2020**

<u>Vendor Name</u>	<u>Services Provided</u>	<u>Approximate</u>
EdOps	Accounting services	\$ 90,000
DC Health Link	Healthcare provider for employees	-
Dynamic Network Solutions	Internet and computer services	60,000
Heutink USA	Montessori classroom supplies	-
Young & Well	Special education services	150,000

Note: The above schedule includes only those contracts entered into by the School as of June 30, 2020 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, 2020.