LEE MONTESSORI PUBLIC CHARTER SCHOOL

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018 AND 2017

TABLE OF CONTENTS

JM&M
Jones, Maresca & McQuade, P.A.
Certified Public Accountants

1730 Rhode Island Avenue, NW
Suite 800
Washington, DC 20036
(202) 296-3306
Fax: (202) 296-0059

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lee Montessori Public Charter School (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 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 Lee 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 28, 2018, on our consideration of Lee Montessori Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lee Montessori Public Charter School's internal control over financial reporting and compliance.

Jones Maresca & McQuade PA

Washington, DC
November 28, 2018

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

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 920,280	$ 790,873
Grants receivable	48,930	26,825
Other receivable, net	34,187	3,410
Prepaid expenses	10,793	11,083
Total Current Assets	1,014,190	832,191
PROPERTY AND EQUIPMENT		
Furniture and fixtures	205,507	151,108
Equipment	18,582	9,020
Property and Equipment	224,089	160,128
Less: accumulated depreciation	(62,277)	(39,091)
Property and Equipment, Net	161,812	121,037
OTHER ASSETS		
Security deposit	5,000	5,000
TOTAL ASSETS	$ 1,181,002	$ 958,228
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 145,849	$ 92,421
Accrued expenses	113,950	83,197
Deferred revenue	15,034	51,767
Total Liabilities	274,833	227,385
NET ASSETS		
Unrestricted	906,169	730,843
TOTAL LIABILITIES AND NET ASSETS	$ 1,181,002	$ 958,228

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

LEE MONTESSORI PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

UNRESTRICTED REVENUE AND SUPPORT	
Per pupil appropriations	$ 2,823,063
Per pupil facility allowance	565,113
Activity fees	266,188
Federal entitlements and grants	158,901
Other grants and contributions	18,511
In-kind contributions	31,126
Total Revenue and Support	3,862,902
EXPENSES	
Program/Education	2,901,475
Supporting Services:	
Management and general	697,409
Fundraising	88,692
Total Expenses	3,687,576
CHANGE IN NET ASSETS	175,326
NET ASSETS, beginning of year	730,843
NET ASSETS, end of year	$ 906,169

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

LEE MONTESSORI PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	$ 2,270,153	$ -	$ 2,270,153
Per pupil facility allowance	452,980	-	452,980
Activity fees	150,407	-	150,407
Federal entitlements and grants	53,678	-	53,678
Other grants and contributions	15,372	-	15,372
In-kind contributions	25,849	-	25,849
Net assets released from restriction	26,353	(26,353)	-
Total Revenue and Support	2,994,792	(26,353)	2,968,439
EXPENSES			
Program/Education	2,151,561	-	2,151,561
Supporting Services:			
Management and general	512,139	-	512,139
Fundraising	36,337	-	36,337
Total Expenses	2,700,037	-	2,700,037
CHANGE IN NET ASSETS	294,755	(26,353)	268,402
NET ASSETS, beginning of year	436,088	26,353	462,441
NET ASSETS, end of year	$ 730,843	$ -	$ 730,843

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

LEE MONTESSORI PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program/ Education	Supporting Services Management and General	Supporting Services Fundraising	Total
PERSONNEL COSTS				
Salaries	$ 1,461,353	$ 313,513	$ 47,213	$ 1,822,079
Employee benefits	148,183	31,792	4,787	184,762
Payroll taxes	121,798	26,131	3,936	151,865
Staff development	157,296	12,114	-	169,410
Total Personnel Costs	1,888,630	383,550	55,936	2,328,116
DIRECT STUDENT COSTS				
Supplies and materials	58,423	-	-	58,423
Contracted student services	310,704	-	-	310,704
Textbooks	9,520	-	-	9,520
Student assessments	5,484	-	-	5,484
Food service	95,391	-	-	95,391
Other	13,374	-	-	13,374
Total Direct Student Costs	492,896	-	-	492,896
OCCUPANCY EXPENSES				
Rent	458,765	114,692	-	573,457
Maintenance and repairs	600	150	-	750
Total Occupancy Expenses	459,365	114,842	-	574,207
OFFICE EXPENSES				
Office supplies and materials	16,266	4,067	-	20,333
Printing and publications	5,490	1,372	-	6,862
Postage and shipping	243	60	-	303
Telephone	5,503	1,376	-	6,879
Other	1,817	453	-	2,270
Total Office Expenses	29,319	7,328	-	36,647
GENERAL EXPENSES				
Insurance	9,239	2,310	-	11,549
Consultants	-	29,078	-	29,078
Authorizer fee	-	36,840	-	36,840
Accounting, auditing and payroll	-	84,639	-	84,639
Legal fees	-	7,507	-	7,507
Depreciation	18,550	4,637	-	23,187
Bad debt	-	25,809	-	25,809
Profesional fundraising fees	-	-	32,756	32,756
Other	3,476	869	-	4,345
Total General Expenses	31,265	191,689	32,756	255,710
Total Expenses	$ 2,901,475	$ 697,409	$ 88,692	$ 3,687,576

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

LEE MONTESSORI PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

		Supporting Services		
	Program/ Education	Management and General	Fundraising	Total
PERSONNEL COSTS				
Salaries	$ 1,144,825	$ 237,342	$ 13,961	$ 1,396,128
Employee benefits	101,510	21,045	1,238	123,793
Payroll taxes	93,838	19,454	1,144	114,436
Staff development	64,168	13,303	783	78,254
Total Personnel Costs	1,404,341	291,144	17,126	1,712,611
DIRECT STUDENT COSTS				
Supplies and materials	50,331	-	-	50,331
Contracted student services	177,019	-	-	177,019
Student assessments	10,340	-	-	10,340
Food service	78,154	-	-	78,154
Other	8,891	-	-	8,891
Total Direct Student Costs	324,735	-	-	324,735
OCCUPANCY EXPENSES				
Rent	362,384	90,596	-	452,980
Maintenance and repairs	1,477	370	-	1,847
Total Occupancy Expenses	363,861	90,966	-	454,827
OFFICE EXPENSES				
Office supplies and materials	14,675	3,668	-	18,343
Printing and publications	3,374	844	-	4,218
Postage and shipping	514	129	-	643
Telephone	5,856	1,464	-	7,320
Other	5,093	1,273	-	6,366
Total Office Expenses	29,512	7,378	-	36,890
GENERAL EXPENSES				
Insurance	8,538	2,134	-	10,672
Bank fees	846	211	-	1,057
Consultants	-	7,878	-	7,878
Authorizer fee	-	31,082	-	31,082
Accounting, auditing and payroll	-	74,317	-	74,317
Legal fees	-	2,097	-	2,097
Depreciation	13,580	3,395	-	16,975
Other	6,148	1,537	19,211	26,896
Total General Expenses	29,112	122,651	19,211	170,974
Total Expenses	$ 2,151,561	$ 512,139	$ 36,337	$ 2,700,037

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

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 175,326	$ 268,402
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	23,187	16,975
Bad debt	25,809	-
(Increase) decrease in assets:		
Grants receivable	(22,105)	22,821
Other receivable	(56,586)	-
Prepaid expenses	290	(963)
Increase (decrease) in liabilities:		
Accounts payable	53,428	(55,600)
Accrued expenses	30,753	(6,855)
Deferred revenue	(36,733)	51,767
Net Cash Provided by Operating Activities	193,369	296,547
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(63,962)	(33,069)
Net Cash Used for Investing Activities	(63,962)	(33,069)
NET CHANGE IN CASH	129,407	263,478
CASH, beginning of year	790,873	527,395
CASH, end of year	$ 920,280	$ 790,873

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

NOTE A – ORGANIZATION AND PURPOSE

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

- Inspiring academic success by providing Montessori curriculum in a holistic and developmentally responsive environment;
- Nurturing student creativity, curiosity and efficacy by promoting self-directed education;
- Offer individual paced academic instruction and activities;
- Engaging students in purposeful and collaborative community building activities;
- Fostering student's use of inner discipline, concentration and task completion to encourage lifelong critical thinking and discovery, and
- Preserving and cultivating the innate capacity of students so they can reach their full potential as contributing global citizens.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting</u>

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.

<u>Basis of Presentation</u>

Financial statement presentation follows Financial Accounting Standards 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation (continued)

The School had no temporarily or permanently restricted net assets for the years ended June 30, 2018 and 2017.

Grants and Other Receivable

Grants and other receivable are recorded when billed and represent claims against third parties that will be settled in cash. Grants receivable are reported net of an allowance for doubtful accounts, if any. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, the age of outstanding receivable and existing economic conditions. If actual experience changes, revisions to the allowance may be necessary. Past due grants receivable are written off when internal collection efforts have been unsuccessful in collecting the amount due. As of June 30, 2018 and 2017, the majority of the receivables are due from governmental agencies. Management has established an allowance for doubtful accounts totaling $25,809 and $0 as of June 30, 2018 and 2017, respectively.

Property and Equipment

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

Revenue Recognition

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition (continued)

Per pupil appropriated revenue is recognized during the period for which the associated education services are provided. Per pupil appropriations includes $632,578 and $540,173 for enhancements, such as special education and at risk students, for the years ended June 30, 2018 and 2017, respectively.

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

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

In-kind Contributions

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

Functional Allocation of Expenses

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

Use of Estimates

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Reclassifications

Certain amounts for 2017 have been reclassified to conform to the current year presentation. The reclassification had no effect on previously reported net assets or change in net assets.

NOTE C – INCOME TAXES

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

The School 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 Form 990 tax returns for the years ending June 30, 2015 through 2017 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 – OPERATING LEASE

The School entered into a lease agreement on April 15, 2016, with St. Paul on Fourth Street, Inc. ("St. Paul") for leasing space to operate the School on its new premises on fourth street for the School year beginning July 1, 2016. The term of this lease is through June 30, 2021, with an agreement to extend the lease for four additional five-year terms. The lease agreement is considered full service, as it covers rent, utilities, building maintenance repairs, cleaning and other miscellaneous services.

In accordance with the terms of the lease agreement, the School is required to pay a usage fee, which is determined based on the number of student enrollment. The total annual usage fee is based on the number of students enrolled as of each census date (every October) multiplied by the greater of the per pupil facilities allowance received by the School from the District of Columbia, or $3,124. Accordingly, the School cannot reasonably estimate its future minimum lease liability under the terms of the lease.

NOTE D – OPERATING LEASE – continued

The lease agreement provides for an option for the School to purchase the leased premises. The option to purchase must be exercised by the School any time after the fifth anniversary, but before the tenth anniversary of the lease effective date. After the tenth anniversary, the purchase option will no longer be offered. The purchase price is determined based on the lessor's all-in actual costs, as further defined in the lease agreement. As of the date these financial statements were available to be issued, management of the School has not evaluated the purchase option, and plans to evaluate at a future time.

Rent expense for the years ended June 30, 2018 and 2017, totaled $573,457 and $452,980, respectively.

NOTE E – RETIREMENT PLAN

The School sponsors a 403(b) deferred compensation retirement plan (the "Plan") for all employees who are at least 18 years of age. Eligible employees can become participants on the first day of the month immediately following the completion of eligibility requirements. Employees may make elective deferred contributions from their eligible earnings, up to the amount allowed by the Internal Revenue Service. It is optional for the School to match the first three percent of a participant's compensation. The total retirement contributions were $21,267 and $0, respectively, for the years ended June 30, 2018 and 2017.

NOTE F – CONCENTRATIONS OF RISK

The School is supported primarily by local and federal appropriations and local grants. For the years ended June 30, 2018 and 2017, 99% and 93%, respectively, of the total revenue was provided by government agencies. Reduction of this source of support would have a significant impact on the School's programs and activities. The geographical area of clients served is Ward 5 of the District of Columbia.

As of June 30, 2018 and 2017, the School had cash that exceeded federally insured limits by approximately $660,000 and $530,000, respectively. Management has evaluated the financial institutions and does not believe it is exposed to any significant credit risk.

NOTE G – COMMITMENTS AND CONTINGENT LIABILITIES

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

NOTE H – SUBSEQUENT EVENTS

In preparing these financial statements, the School's management has evaluated events and transactions for potential recognition or disclosure through November 28, 2018, the date the financial statements were available to be issued. There are no other events that required further recognition or disclosure.

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

1730 Rhode Island Avenue, NW
Suite 800
Washington, DC 20036
(202) 296-3306
Fax: (202) 296-0059

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
Lee Montessori Public Charter School
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lee Montessori Public Charter School (the "School") (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 28, 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. 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Jones Marcus & McQuade PA

Washington, DC
November 28, 2018