

Ozark Montessori Academy

Washington County, Arkansas

Regulatory Basis Financial Statements And Other Reports

June 30, 2016

LEGISLATIVE JOINT AUDITING COMMITTEE



OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
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Arkansas

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Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Ozark Montessori Academy and Charter School Board Members
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Ozark Montessori Academy (the "Charter School"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Charter School's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 Charter School'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 Charter School'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 opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by the Charter School on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Charter School as of June 30, 2016, or the changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the Charter School as of June 30, 2016, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School's regulatory basis financial statements. The Schedule of Capital Assets is presented for the purposes of additional analysis and is not a required part of the regulatory basis financial statements.

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017 on our consideration of the 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 the Charter School's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Little Rock, Arkansas
September 26, 2017
EDCS03416

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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*

INDEPENDENT AUDITOR'S REPORT

Ozark Montessori Academy and Charter School Board Members
Legislative Joint Auditing Committee

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 each major governmental fund and the aggregate remaining fund information of the Ozark Montessori Academy (the "Charter School"), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Charter School's regulatory basis financial statements, and have issued our report thereon dated September 26, 2017. We issued an adverse opinion because the Charter School prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the Charter School as of June 30, 2016, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered the Charter 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 opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter 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 Charter School'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described below in the Audit Findings section of this report as items 1 and 2 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter School's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Charter School in a separate letter dated September 26, 2017.

AUDIT FINDINGS

Material Weaknesses

1. Deficiencies in the internal control component of control activities adversely affected the Charter School's ability to initiate, authorize, record, process, and report financial transactions in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the Charter School's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, the same employee issued receipts and checks, prepared journal entries, posted transactions to the general ledger, prepared the bank reconciliations, set up vendors in the computer system, established employees in the payroll system, and processed payroll, without compensating controls. Multiple employees have System Administrator access for Accounts Receivable and Cash Receipts, Benefits, Human Resources, and Security packages in APSCN, without adequate compensating controls. Furthermore, four individuals who were not employees of the Charter School had Supervisor access for Audit Trails, and one former employee's System Administrator access for Accounts Receivable and Cash Receipts as well as other access has not been removed.

Management Response: APSCN access has been reviewed and updated as necessary. Our internal control policy requires all bank reconciliations, journal entries, bank statements, payroll, and expenditures to be approved by the Superintendent. Policies are being developed by our Board Financial Oversight Committee to ensure a systematic process of review of transactions. The Superintendent will also reach out for additional training on monitoring bank reconciliations.

2. Charter School management did not demonstrate sufficient oversight of the accounting system to ensure accurate, reliable, and timely financial accounting records. Weaknesses in the Charter School's internal control system could hinder the prevention or detection of material errors in the financial accounting records.

Specific weaknesses identified were as follows:

- The Charter School's internal control system did not prevent, or detect and correct, on a timely basis material errors in the financial accounting records. Such records are utilized in the preparation of the Charter School's financial statements. In the Special Revenue fund, revenues were misstated by \$56,084 due to accounts receivable of \$20,898 recorded in error, unrecorded accounts receivable of \$543, and a misclassified transfer of \$34,643. The financial statements were subsequently corrected during audit fieldwork.
- In our examination of payroll expenditures, we noted the following:
 - a. Wage rates were not properly authorized in three instances.
 - b. Fourteen timesheets were not signed by both the employee and supervisor.
 - c. A contract was not prepared in one instance.
 - d. Contract amounts were not always properly calculated and paid in accordance with the applicable salary schedule.
 - e. Based on available information of contract amounts and days worked, two employees tested appeared to have been overpaid by \$545 and \$575, respectively.
 - f. Based on available information of contract amounts and days worked, four employees tested appeared to have been underpaid by \$355, \$41, \$1,374 and \$490, respectively.
 - g. One employee was paid for overtime of \$519 without supporting documentation.
- Our examination of 40 nonpayroll expenditures and other expenditure testing revealed the following internal control weaknesses specific to the Charter School's processing of nonpayroll expenditures:
 - a. 20 disbursements (\$26,629) did not indicate any form of approval/authorization.
 - b. Nine disbursements (\$25,674) did not have proper supporting documentation.

Management Response:

Transfers will be properly classified. Accounts receivables and accounts payables will be properly identified. The new Finance Director has been properly trained to detect and address material errors in accounting records.

Proper payroll documentation will be accurately processed and maintained. This will include signed timesheets, properly authorized wage rates, and overtime documentation. Contracts will be prepared in a timely manner.

All expenditures will have proper supporting documentation and will be approved by the Superintendent. Invoices will stapled to credit card statements to ensure documentation is orderly and complete.

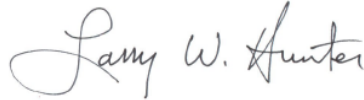
Charter School's Response to Findings

The Charter School's response to the findings identified in our audit, excluding the management letter findings, is described previously. The Charter School's response was not subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Charter School'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 Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 26, 2017

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

Ozark Montessori Academy and Charter School Board Members
Legislative Joint Auditing Committee

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations, and to improve internal control. These matters were discussed previously with Charter School officials during the course of our audit fieldwork and at the exit conference.

1. Reimbursement of federal expenditures of \$95,044 for the year ended June 30, 2016 was not requested until May 30, 2017.
2. The Charter School did not pay the same employer contribution rate for each eligible employee electing to participate in health insurance program as required by Ark. Code. Ann. § 6-17-1117(c)(1).
3. Supporting documentation was not maintained for business travel totaling \$538 for the fiscal year ended June 30, 2016 and \$470 for the fiscal year ended June 30, 2017. The business purpose of travel was not documented in seven instances (\$1,053). One employee used the school credit card to purchase gas for a personal vehicle used for business travel and netted the gas purchases (\$162) against the mileage reimbursements (\$659) in five instances (\$497 net reimbursement).
4. The Charter School paid \$960 to the spouse of an administrator for bus route planning without a Board resolution or authorization from the Department of Education, as required by Ark. Code Ann. § 6-24-106. In addition, \$590 of this amount was not properly documented.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and Charter School management, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 26, 2017

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2016

Exhibit A

	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
ASSETS			
Cash	\$ 98,942	\$ 19,019	\$ 16,905
Accounts receivable		103,018	9,918
Due from other funds	97,321		
TOTAL ASSETS	\$ 196,263	\$ 122,037	\$ 26,823
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 95,494	\$ 27,189	
Due to other funds		97,321	
Total Liabilities	95,494	124,510	
Fund Balances:			
Restricted	70,258		\$ 26,823
Assigned	1,598		
Unassigned	28,913	(2,473)	
Total Fund Balances	100,769	(2,473)	26,823
TOTAL LIABILITIES AND FUND BALANCES	\$ 196,263	\$ 122,037	\$ 26,823

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

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
State assistance	\$ 950,955		\$ 76,058
Federal assistance		\$ 392,917	
Activity revenues	10,398		
Meal sales		18,662	
Other revenues	32,586		
TOTAL REVENUES	993,939	411,579	76,058
EXPENDITURES			
Regular programs	459,679	137,868	
Special education	30,465	19,398	
Compensatory education programs	5,990	41,347	
Other instructional programs	33,057	661	
Student support services	52,594	5,189	
Instructional staff support services	47,756	71,613	
General administration support services	34,386	1,141	
School administration support services	120,584	39,062	
Central services support services	66,460	24,613	
Operation and maintenance of plant services	48,326		49,235
Student transportation services	45,743		
Food services operations	523	106,843	
Community services operations		960	
Activity expenditures	8,800		
TOTAL EXPENDITURES	954,363	448,695	49,235
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	39,576	(37,116)	26,823
OTHER FINANCING SOURCES (USES)			
Transfers in		34,643	
Transfers out	(34,643)		
Contributions from Ozark Education, Inc.	95,836		
TOTAL OTHER FINANCING SOURCES (USES)	61,193	34,643	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	100,769	(2,473)	26,823
FUND BALANCES - JULY 1	0	0	0
FUND BALANCES - JUNE 30	\$ 100,769	\$ (2,473)	\$ 26,823

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

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 942,991	\$ 950,955	\$ 7,964			
Federal assistance				\$ 452,044	\$ 392,917	\$ (59,127)
Activity revenues		10,398	10,398			
Meal sales				11,000	18,662	7,662
Other revenues	32,416	32,586	170			
TOTAL REVENUES	975,407	993,939	18,532	463,044	411,579	(51,465)
EXPENDITURES						
Regular programs	435,653	459,679	(24,026)	132,993	137,868	(4,875)
Special education	41,325	30,465	10,860	22,908	19,398	3,510
Compensatory education programs		5,990	(5,990)	26,347	41,347	(15,000)
Other instructional programs	49,780	33,057	16,723		661	(661)
Student support services	58,795	52,594	6,201	7,000	5,189	1,811
Instructional staff support services	52,116	47,756	4,360	150,769	71,613	79,156
General administration support services	33,033	34,386	(1,353)	10,319	1,141	9,178
School administration support services	95,062	120,584	(25,522)	28,688	39,062	(10,374)
Central services support services	46,613	66,460	(19,847)		24,613	(24,613)
Operation and maintenance of plant services	76,553	48,326	28,227	29,948		29,948
Student transportation services	46,220	45,743	477			
Food services operations	5,945	523	5,422	91,138	106,843	(15,705)
Community services operations				1,000	960	40
Activity expenditures		8,800	(8,800)			
TOTAL EXPENDITURES	941,095	954,363	(13,268)	501,110	448,695	52,415
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	34,312	39,576	5,264	(38,066)	(37,116)	950

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 358,235		\$ (358,235)	\$ 38,066	\$ 34,643	\$ (3,423)
Transfers out	(396,301)	\$ (34,643)	361,658			
Contributions from Ozark Education, Inc.	95,836	95,836				
TOTAL OTHER FINANCING SOURCES (USES)	57,770	61,193	3,423	38,066	34,643	(3,423)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	92,082	100,769	8,687		(2,473)	(2,473)
FUND BALANCES - JULY 1	0	0	0	0	0	0
FUND BALANCES - JUNE 30	<u>\$ 92,082</u>	<u>\$ 100,769</u>	<u>\$ 8,687</u>	<u>\$ 0</u>	<u>\$ (2,473)</u>	<u>\$ (2,473)</u>

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

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public school education within the jurisdiction of the Ozark Montessori Academy (Charter School). The Charter School is an open-enrollment charter school and the sponsoring entity is Ozark Education, Inc., a nonprofit corporation. There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the Charter School's food services operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, inclusion of the net pension liability in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Measurement Focus and Basis of Accounting (Continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA .

E. Capital Assets

Information on capital assets is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at acquisition value when received. The Charter School maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No depreciation is reported for the year ended June 30, 2016.

F. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

G. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the Charter School's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

H. Budget and Budgetary Accounting

The Charter School is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The Charter School does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the charter schools employ the cash basis method.

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Budget and Budgetary Accounting (Continued)

The Charter School budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis. Additionally, the Charter School routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

I. Stabilization Arrangements

The Charter School's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

J. Minimum Fund Balance Policies

The Charter School's Board of Education has not formally adopted a minimum fund balance policy.

K. Fund Balance Classification Policies and Procedures

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The Charter School's Board of Education has not adopted a formal policy addressing this authorization

The Charter School's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the Charter School's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The Charter School does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. Charter School personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The Charter School does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

L. Encumbrances

The Charter School does not utilize encumbrance accounting.

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 134,866	\$ 156,743

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 were comprised of the following:

Description	Governmental Funds	
	Major	
	Special Revenue	Other Aggregate
State assistance		\$ 9,918
Federal assistance	\$ 103,018	
Totals	\$ 103,018	\$ 9,918

4: COMMITMENTS

The Charter School was contractually obligated for the following at June 30, 2016:

Operating Leases (noncapital leases with initial noncancellable lease terms in excess of one year)

General description of leases and leasing arrangements: Building lease with a lease term from December 15, 2015 through June 30, 2021

1. Future minimum rental payments (aggregate) at June 30, 2016: \$1,225,690
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2017	\$ 120,166
2018	196,271
2019	260,359
2020	324,447
2021	324,447
Total	\$ 1,225,690

Rental payments for the operating leases described above were approximately \$25,035 for the year ended June 30, 2016.

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	\$ 9,533	\$ 4,498
Salaries payable	31,270	12,191
Payroll withholdings and matching	54,691	10,500
Totals	<u>\$ 95,494</u>	<u>\$ 27,189</u>

6: INTERFUND TRANSFER

The Charter School transferred \$34,643 from the General Fund to the Special Revenue Fund to supplement its food service operations.

7: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description

The Charter School contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies, except certain non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries. The Charter School's contributions to ATRS for the year ended June 30, 2016 were \$86,100, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the Charter School's proportionate share of the collective net pension liability. Since the Charter School's initial year of operations was the year ended June 30, 2016, the Charter School's proportionate share of the collective net pension liability at June 30, 2015 (actuarial valuation date and measurement date) was \$0.

8: DEFICIT FUND BALANCE

The deficit unassigned fund balance of \$2,473 in the Special Revenue Fund in the table at Note 11 pertains to the Food Service program. The temporary deficit was caused by the recognition of minor accounts payable at year end.

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

9: RISK MANAGEMENT

The Charter School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Charter School participates in the Arkansas School Boards Association - Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member Charter Schools. The Charter School contributes annually to this program.

Additionally, the Charter School participates in the Arkansas School Boards Association - Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating, and settling claims that have been filed against member Charter Schools. The Charter School pays an annual premium for its coverage of buildings, contents and vehicles.

The Charter School participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$300,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

Settled claims have not exceeded coverage during the fiscal year.

10: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the Charter School's employees, totaled \$27,058 for the year ended June 30, 2016.

11: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Educational programs -			
national school lunch state			
categorical funding	\$ 7,047		
English-language learners	10,692		
Other purposes	52,519		\$ 26,823
Total Restricted	<u>70,258</u>		<u>26,823</u>
Assigned to:			
Student activities	<u>1,598</u>		
Unassigned	<u>28,913</u>	\$ (2,473)	
Totals	<u>\$ 100,769</u>	<u>\$ (2,473)</u>	<u>\$ 26,823</u>

OZARK MONTESSORI ACADEMY
WASHINGTON COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)

Schedule 1

	Balance <u>June 30, 2016</u>
<i>Depreciable capital assets:</i>	
Equipment	<u>\$ 15,813</u>