



**A Charter School of the District
School Board of Polk County, Florida**

**FINANCIAL STATEMENTS AND AUDITORS' REPORTS
June 30, 2017**

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Magnolia Montessori Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Magnolia Montessori Academy, Inc., (the "School"), a charter school of the School District of Polk County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic 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 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 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 disclosures 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Magnolia Montessori Academy, Inc., as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(cont...)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2017, on our consideration of Magnolia Montessori Academy, Inc.'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 Magnolia Montessori Academy's internal control over financial reporting and compliance.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Auburndale, Florida
August 17, 2017

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Unaudited)
JUNE 30, 2017

The management's discussion and analysis (MD&A) provides an overview of Magnolia Montessori Academy, Inc.'s ("School") activities for the year ended June 30, 2017 and should be read in conjunction with the financial statements and the notes thereto.

The MD&A, and the financial statements and notes thereto, are the responsibility of School management.

FINANCIAL HIGHLIGHTS

- Net position represents the residual interest in the School's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The School's net position at June 30, 2017 totaled \$81,919 or 10% of 2016-2017 expenses compared to the June 30, 2016 total of \$103,721 or 14% of 2015-2016 expenses.
- For the year ended June 30, 2017, the School's total net position decreased by \$21,802 as a result of current year operations.
- As of the close of the current fiscal year, the School's general fund reported ending fund balance of \$79,550, an increase of \$3,578 in comparison with the prior year.
- At the close of the current fiscal year, the School's general fund reported ending unassigned fund balance of \$75,193 which represents 9% of the total expenditures for the year ended June 30, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes the management's discussion and analysis, the independent auditor's report and the basic financial statements of the School as well as required supplementary information. The financial statements also include notes that explain in more detail some of the information found in the financial statements. The basic financial statements include two kinds of statements that present different views of the School.

The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the School's overall financial status. These statements report information about the School as a whole and about its activities in a manner that helps answer the question, "Is Magnolia Montessori Academy, Inc. better off or worse off as a result of the year's activities?" These statements include all assets, liabilities and deferred outflows and inflows of resources using the accrual basis of accounting similar to the accounting used by the private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The *statement of net position* presents all of the School's assets, deferred inflows of resources, liabilities and deferred inflows of resources, with the residual measure reported as "net position". Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating. The reader will need to consider other non-financial factors such as the current tax laws, student enrollment growth or decline, and facility conditions in arriving at their conclusion regarding the overall health of the School.

The *statement of activities* presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

The remaining statements are the *fund financial statements* that focus on individual parts of the School's operation in more detail than the government-wide statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Unaudited)
JUNE 30, 2017

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund statements provide a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balance provide a reconciliation of governmental fund(s) to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balance provide detailed information about the School's most significant funds. The School operates one fund, a general fund to account for its general operations and internal account activities. For reporting purposes the general fund is the only major fund of the School.

The School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the general fund to demonstrate compliance with the budget.

Notes to financial statements – The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Unaudited)
JUNE 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

	Statement of Net Position			
	<i>Governmental Activities</i>			
	6-30-17	6-30-16	Change	%
Assets				
Cash and cash equivalents	\$ 110,764	\$ 116,920	\$ (6,156)	-5%
Due from other governments	5,330	-	5,330	-----
Capital Assets, Net	25,160	41,488	(16,328)	-39%
Total Assets	141,254	158,408	(17,154)	-11%
Liabilities				
Current Liabilities	51,729	51,348	381	1%
Noncurrent Liabilities:	7,606	3,339	4,267	128%
Total Liabilities	59,335	54,687	4,648	8%
Net Position				
Net Investment in				
Capital Assets	25,160	41,488	(16,328)	-39%
Unrestricted	56,759	62,233	(5,474)	-9%
Total Net Position	\$ 81,919	\$ 103,721	\$ (21,802)	-21%

The assets of the School primarily consist of cash and cash equivalents and equipment and leasehold improvements. Liabilities consist primarily of accounts payable and accrued wages payable.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The School's net position was \$81,919 at the close of the current fiscal year. Unrestricted net position is approximately 69% of the total net position and the School's investment in capital assets makes up the remaining 31%.

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Unaudited)
JUNE 30, 2017

The key elements of the changes in the School's net position for the fiscal year ended June 30, 2017 and 2016 are as follows.

	Statement of Activities			
	<i>Governmental Activities</i>			
	6-30-17	6-30-16	Change	%
Revenues:				
<i>Program revenues:</i>				
Charges for services	\$ 139,391	\$ 142,068	\$ (2,677)	-2%
Operating grants and contributions	39,116	13,408	25,708	192%
<i>General revenues:</i>				
State passed through local school district	598,329	600,463	(2,134)	0%
Other general revenues	33,030	302	32,728	10837%
Total revenues	809,866	756,241	53,625	7%
Expenses:				
Instruction	539,356	492,711	46,645	9%
Instructional support	8,959	13,203	(4,244)	-32%
Board	8,885	7,941	944	12%
Transportation	5,781	5,259	522	10%
School administration	131,141	121,374	9,767	8%
Central services	29,457	29,579	(122)	0%
Operation of plant	104,487	86,493	17,994	21%
Community services	3,602	1,182	2,420	205%
Total expenses	831,668	757,742	73,926	10%
Change in Net Position	\$ (21,802)	\$ (1,501)	\$ (20,301)	1352%

The School's total revenues were \$809,866 for 2017 compared to \$756,241 for 2016 while the total costs of all programs and services were \$831,668 in 2017 and \$757,742 in 2016. This resulted in a decrease in net position of \$21,802 in 2017 compared to a decrease of \$1,501 in 2016.

The largest revenue source for the School is the State of Florida (78%) which includes the amounts reported as general revenues as well as capital outlay revenue of \$25,568, transportation revenue of \$3,108 and teacher supply allocation revenue of \$1,848, all of which are reported as operating grants and contributions. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data to determine the funds available for the School.

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Unaudited)
JUNE 30, 2017

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds - As of June 30, 2017, the School's general fund reported a positive fund balance of \$79,550 or 10% of 2016-2017 general fund expenditures. As of June 30, 2016, the School's general fund reported a positive fund balance of \$75,972 or 10% of 2015-2016 general fund expenditures.

BUDGETARY HIGHLIGHTS

The general fund budget for the fiscal year ended June 30, 2017, was developed based on the School's anticipated revenues and expenditures and the expected student population for the school year. For the year ended June 30, 2017, actual budgetary inflows were \$66,036 greater than the final budgeted amount and actual outflows were \$2,866 less than budgeted appropriations resulting in an overall positive budget variance of \$68,902.

CAPITAL ASSETS

At June 30, 2017, the School had \$99,996 in capital assets, less accumulated depreciation of \$74,836, for net capital assets of \$25,160. Depreciation charges for the current fiscal year totaled \$16,328. More information about the School's capital assets is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The budget is initially adopted by June of the prior year based on a conservative estimate of enrollment and estimated per pupil revenue from the state. This enrollment is based on the number of expected returning students and the number of students in the waiting pool for available spaces. For the 2016-2017 school year, the enrollment at the School was 91 students. The 2017-2018 enrollments are expected to increase to approximately 112 full-time-equivalent students.

REQUEST FOR INFORMATION

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional information should be addressed to the Director of Finance, Magnolia Montessori Academy, Inc. 1540 New Jersey Rd, Lakeland, FL 33803.

MAGNOLIA MONTESSORI ACADEMY, INC.
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 110,764
Due from other governments	5,330
Capital assets, net	
Depreciable	25,160
TOTAL ASSETS	<u>141,254</u>
LIABILITIES	
Accounts payable and accrued wages	36,544
Unearned revenue	15,185
Long-term liabilities:	
Due within one year	-
Due in more than one year	7,606
TOTAL LIABILITIES	<u>59,335</u>
NET POSITION	
Net investment in capital assets	25,160
Unrestricted	56,759
TOTAL NET POSITION	<u>81,919</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 141,254</u></u>

See Accompanying Notes to Financial Statements

MAGNOLIA MONTESSORI ACADEMY, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2017

FUNCTIONS / PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental activities:					
Instruction	\$ 539,356	\$ 132,248	\$ 8,307	\$ -	\$ (398,801)
Instructional support services	8,959	-	2,133	-	(6,826)
Board	8,885	-	-	-	(8,885)
School administration	131,141	-	-	-	(131,141)
Central services	29,457	-	-	-	(29,457)
Pupil transportation services	5,781	-	3,108	-	(2,673)
Operation of plant	104,487	-	25,568	-	(78,919)
Community services	3,602	7,143	-	-	3,541
Total governmental activities	<u>\$ 831,668</u>	<u>\$ 139,391</u>	<u>\$ 39,116</u>	<u>\$ -</u>	<u>(653,161)</u>
GENERAL REVENUES:					
State passed through local school district					598,329
Other general revenues					33,030
Total general revenues					<u>631,359</u>
CHANGE IN NET POSITION					<u>(21,802)</u>
NET POSITION - beginning of year					103,721
NET POSITION - end of year					<u>\$ 81,919</u>

See Accompanying Notes to Financial Statements

MAGNOLIA MONTESSORI ACADEMY, INC.
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	General Fund
ASSETS	
Cash and cash equivalents	\$ 110,764
Due from other governments	5,330
TOTAL ASSETS	<u>\$ 116,094</u>
LIABILITIES AND FUND BALANCE	
Accounts payable and accrued wages	\$ 36,544
TOTAL LIABILITIES	<u>36,544</u>
FUND BALANCE:	
Assigned for playground improvements	4,357
Unassigned	75,193
TOTAL FUND BALANCE	<u>79,550</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 116,094</u>

See Accompanying Notes to Financial Statements

MAGNOLIA MONTESSORI ACADEMY, INC.
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
 June 30, 2017

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 79,550
 Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	25,160
Certain preschool related unearned revenue that did not meet the earned criteria for recognition in the statement of activities.	(15,185)
Long-term liabilities (including compensated absences) are not payable from current resources and therefore they are not reported in the governmental funds.	<u>(7,606)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 81,919</u>

See Accompanying Notes to Financial Statements

MAGNOLIA MONTESSORI ACADEMY, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS
For the year ended June 30, 2017

	<u>General Fund</u>
REVENUES:	
Intergovernmental:	
Federal passed through local school district	\$ 8,592
State passed through local school district	628,853
Pre kindergarten and aftercare fees	115,891
Contributions and other local sources	61,243
Interest revenue	73
Total revenues	<u>814,652</u>
EXPENDITURES:	
Instruction	518,762
Instructional support services	8,959
Governing board	8,885
School administration	131,141
Central services	29,457
Pupil transportation services	5,781
Operation of plant	104,487
Community services	3,602
Total expenditures	<u>811,074</u>
NET CHANGE IN FUND BALANCE	3,578
FUND BALANCE, beginning of year	<u>75,972</u>
FUND BALANCE, end of year	<u>\$ 79,550</u>

See Accompanying Notes to Financial Statements

MAGNOLIA MONTESSORI ACADEMY, INC.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

For the year ended June 30, 2017

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	3,578
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**Amounts reported for governmental activities in the statement of activities are
different because:**

Depreciation expense on capital assets is reported in the government-wide statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (16,328)

Certain pre kindergarten revenues reported in the prior year statement of activities did not provide current financial resources and, therefore, were not reported as revenues in the governmental funds in the prior year.

 This is the amount of unearned revenue in the prior year. 10,400

 This is the amount of unearned revenue in the current year. (15,185)

Long-term compensated absences are reported in the government-wide statement of activities, but they do not require the use of current financial resources. This is the net change in the liability during the year. (4,267)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	(21,802)
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MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Magnolia Montessori Academy, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes on June 6, 2012. The governing body of the School is a Board of Directors comprised of not less than three or more than seven members elected by the existing Board members.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the School District of Polk County, Florida (the "District") and, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units. The charter became effective on July 1, 2013 for a four-year term ending June 30, 2017 and has been renewed for a fifteen year term ending June 30, 2032. The charter may be renewed for up to an additional fifteen years. During the term of the charter, the District may terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the District.

Criteria for determining if other entities are potential component units which should be reported within the School's basic financial statements are identified and described in Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based upon these criteria, no component units are included within the reporting entity of the School.

BASIS OF PRESENTATION

The School's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB. Accordingly, the basic financial statements consist of the government-wide financial statements and fund financial statements.

Government-wide Financial Statements - The government-wide financial statements, including the statement of net position and the statement of activities, present information about the School as a whole using accounting methods similar to those used by private-sector companies. These statements include nonfiduciary financial activity of the school. Both statements report only governmental activities as the School does not engage in any business type activities.

Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

BASIS OF PRESENTATION (cont...)

Fund Financial Statements - The fund financial statements provide detailed information about the School's most significant funds. A fund is an accounting entity having a self-balancing set of accounts for recording assets, deferred outflows, liabilities, deferred inflows, fund balance, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The financial transactions of the School are recorded in a single governmental "general" fund. There are no other governmental funds. Because the focus of governmental fund financial statements differs from the focus of the government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in accounts and reported in the financial statements. Basis of accounting related to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements, are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

Imposed nonexchange resources are reported as deferred inflows if received before the date when use is first permitted. Government mandated nonexchange transactions (grants) and voluntary nonexchange transactions (donations) resources are reported as liabilities until the eligibility requirements are met and as deferred inflows if received before time requirements are met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be *available* when they are collectible within 60 days of the end of the current fiscal period. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, state or other grant resources, revenue is recognized at the time the expenditure is made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recognized only when payment is due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

CASH AND CASH EQUIVALENTS - The financial statement caption "cash and cash equivalents" includes all deposits with banks and financial institutions including certificates of deposit and all highly-liquid investments (with original maturities of three months or less). All deposits are insured by federal depository insurance.

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

RECEIVABLES - Consist primarily of amounts due from other governments. All receivables are deemed collectible, and no allowance for uncollectible accounts is considered necessary.

INVENTORIES - Supplies inventory is immaterial and such items are charged to expense when purchased.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will *not* be recognized as an outflow of resources (expense/expenditure).

In addition to liabilities, the statement of net position will sometimes report a section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applied to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

COMPENSATED ABSENCES - Employees are allowed 10 paid days of leave per contract year which commences on July 1 and ends on June 30. The employees are given all 10 days on the first day of the contract year. At the end of each contract period up to fifteen days of unused leave may be carried to the subsequent year or, if the employee has worked for the School for the entire school year, they can elect to receive payment for the accumulated unused leave instead of carrying the days to the next year. School directors do not receive payment of unused leave upon termination. The School will provide pay for accumulated leave time upon termination based upon the set rate in the individual employee contracts. The liability for these compensated absences is recorded as long-term in the government-wide statement of net position and not reported in the fund level balance sheet because the liability is generally not payable from expendable available financial resources.

CAPITAL ASSETS - In the government-wide statements, capital assets include leasehold improvements and furniture and equipment. Capital assets are defined as personal or real property or improvements with an individual cost of \$750 or more and that is either titled in the School's name or for which the School has the continuing responsibility for maintenance. Such assets are recorded at historical cost and reported net of accumulated depreciation. Donated assets are recorded at fair market value as of the date received. Other costs incurred for repairs and maintenance are expensed as incurred.

In the fund financial statements, capital assets used in governmental fund operations are accounted as capital outlay expenditures of the governmental fund upon acquisition.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Leasehold improvements	3-20
Furniture and equipment	3-5

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

USE OF ESTIMATES -The preparation of financial statements in conformity with generally accepted accounting principles requires management to make use of estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from those estimates

INCOME TAXES - The School is generally exempt from income taxes under section 501 (c) (3) of the Internal Revenue Code and applicable state law. Therefore, no provisions for income taxes have been made in the accompanying financial statements.

The School recognizes the financial statement effects from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the School and various positions related to the potential sources of unrelated business taxable income. The assessment of the technical merits of a tax position is a matter of judgment. The School files Form 990 in the U.S. Federal jurisdiction. The School is generally no longer subject to examination by the Internal Revenue Service for years endings before June 30, 2014.

REVENUE SOURCES - Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent (FTE) students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. The District receives a 5% administrative fee from the School, which is reflected as a central services expense / expenditure in the accompanying statement of activities and statement of revenues, expenditures and change in fund balance.

The School is also eligible for charter school capital outlay funding. The amounts received under this program are based on the School's actual and projected student enrollments during the fiscal year. Funds received under this program may only be used for lawful capital outlay expenditures and, as such, the unspent portion is reflected as restricted net position and fund balance in the accompanying statements of net position and balance sheet - governmental fund, respectively. As of June 30, 2017, the School had no unspent capital outlay funds.

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

EQUITY CLASSIFICATIONS -

Government-wide Statements - The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is classified as net position and displayed in three components:

- a) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position - Consists of net position with constraints placed in its use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position - Consists of the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted net position are available for use, it is the School's policy to use restricted net position first, then unrestricted net position as they are needed.

Fund Statements - The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor the constraints on the specific purposes for which amounts in those funds can be spent. The following classifications describe the relative strength of the spending constraints:

- a) Nonspendable - amounts that are not in spendable form (such as prepaid items and deposits) or are legally required to be maintained intact. The School had no nonspendable fund balance amounts at June 30, 2017.
- b) Restricted - amounts constrained to specific purposes by external purposes by external providers or imposed by law through constitutional provisions or by enabling legislation. The School had no restricted fund balance amounts at June 30, 2017.
- c) Committed - amounts constrained to specific purposes by formal action of the School itself, using its highest level of decision making authority (the School's Board of Directors) through resolution. To be reported as committed, amounts cannot be used for any other purpose unless the School's Board of Directors takes the same highest level action (a resolution) to remove or change the constraint. The School had no committed fund balance amounts at June 30, 2017.

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

- d) Assigned - amounts the School intends to use for a specific purpose but are neither restricted nor committed. Assignments can be made by the principal or by an official or body which the Board of Directors have delegated the authority. The School reported fund balance assigned for playground improvements at June 30, 2017.

- e) Unassigned - includes residual positive fund balance which has not been classified within the other above mentioned categories.

The details of the fund balances are included in the governmental funds balance sheet. The School uses restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds. The details of the fund balances are included in the governmental fund balance sheet on page 10.

NOTE 2 - BUDGETARY LAW AND PRACTICE

The budget is adopted by the School's Board of Directors on or before July 1 of each year by motion in the minutes. All budget amounts presented in the accompanying supplementary information have been adjusted for legally authorized amendments. The budget for the general fund is prepared on a cash basis which differs from the basis used for financial reporting purposes.

NOTE 3 - CASH

The School's deposits are insured by the FDIC up to \$250,000 per financial institution.

There were no investment securities maintained during the year. The captions on the government-wide statement of net position for "cash and cash equivalents" are summarized below.

Cash and cash equivalents:	
Fully collateralized deposits in financial institutions	\$ 110,764
Total cash and cash equivalents	<u>\$ 110,764</u>

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
<u>Governmental Activities:</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 76,195	\$ -	\$ -	\$ 76,195
Furniture and equipment	23,801	-	-	23,801
Total	<u>99,996</u>	<u>-</u>	<u>-</u>	<u>99,996</u>
Less accumulated depreciation for:				
Leasehold improvements	(40,149)	(14,359)	-	(54,508)
Furniture and equipment	(18,359)	(1,969)	-	(20,328)
Total accumulated depreciation	<u>(58,508)</u>	<u>(16,328)</u>	<u>-</u>	<u>(74,836)</u>
Depreciable capital assets, net	<u>\$ 41,488</u>	<u>\$ (16,328)</u>	<u>\$ -</u>	<u>\$ 25,160</u>

Depreciation expense was charged to the following programs and functions:

Governmental Activities:

Instruction	\$ 16,328
Total depreciation expense - governmental activities	<u>\$ 16,328</u>

NOTE 5 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due within One Year
<u>Governmental Activities</u>					
Long-term liabilities					
Compensated absences	3,339	9,689	(5,422)	7,606	-
Total long-term liabilities	<u>\$ 3,339</u>	<u>\$ 9,689</u>	<u>\$ (5,422)</u>	<u>7,606</u>	<u>\$ -</u>
Less amount due in one year				<u>-</u>	
Net long-term liabilities due after one year				<u>\$ 7,606</u>	

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - RISK MANAGEMENT

Commercial insurance protection with normal deductibles, including general liability, property and workers compensation, is in place to limit the School's exposure from losses arising from theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There has been no significant reduction in coverages, nor have settlement amounts exceeded the School's coverages during the year ended June 30, 2017 or the previous two years.

In the normal course of conducting operations, the School may become party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on financial operations. As of June 30, 2017, management was not aware of any legal actions or proceedings pending against the school.

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES

The School may from time to time participate in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

In accordance with Florida Statutes, all property and improvements, furnishings and equipment purchased with public funds provided to the School through the District will automatically revert to full ownership of the District upon the non-renewal or termination of the charter agreement.

NOTE 8 - FACILITY LEASE

Effective December 21, 2012, the School entered into an annual operating lease for administrative and classroom space. The School has continued to lease the facility under annual lease agreements for each year through June 30, 2017. Facility rental expense related to the facility lease for the fiscal year ended June 30, 2017 totaled \$54,810.

Effective May 24, 2017, the School entered into an annual lease agreement for the year ending June 30, 2018. Based upon this agreement, the annual fee for the 2017-2018 school year is \$55,632.

MAGNOLIA MONTESSORI ACADEMY, INC.
A Charter School of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 - CONCENTRATION OF REVENUE SOURCES

The School's principal source of revenues is from the State of Florida passed through the District, which provided approximately 78% of total revenue for the year ended June 30, 2017. The following is a schedule of revenue sources and amounts for the year ended June 30, 2017.

<u>Sources</u>	<u>Amount</u>
School District of Polk County, Florida	
Base funding and supplemental academic instruction	\$ 427,508
Digital classroom allocation	1,874
Discretionary millage	21,370
Discretionary tax equalization allocation	20,088
Instructional materials allocation	7,144
Discretionary lottery	1,462
Class size reduction	105,874
Reading allocation	3,828
School recognition	9,181
Transportation	3,108
Teacher supply program	1,848
Capital outlay	25,568
Federal IDEA grant revenue	6,459
Federal Title II grant revenue	2,133
Total revenue through the School District of Polk County, Florida	637,445
Other revenue:	
Preschool tuition and fees	108,748
Aftercare fees	7,143
Parent support fees	7,475
Donations	32,957
Fundraisers	16,063
Field trips	4,748
Interest revenue	73
Total revenue	\$ 814,652



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REQUIRED SUPPLEMENTARY INFORMATION

MAGNOLIA MONTESSORI ACADEMY, INC.
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Unaudited)
for the year ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RESOURCES (inflows):				
Intergovernmental:				
Federal passed through local school district	\$ 9,000	\$ 9,000	\$ 8,592	\$ (408)
State passed through local school district	582,492	597,016	599,396	2,380
Pre kindergarten and aftercare fees	100,000	100,000	108,748	8,748
Contributions and other local sources	6,000	6,000	61,243	55,243
Interest revenue	-	-	73	73
Total resources	<u>697,492</u>	<u>712,016</u>	<u>778,052</u>	<u>66,036</u>
CHARGES TO APPROPRIATIONS (outflows):				
Instruction	448,801	485,901	518,762	(32,861)
Instructional support services	9,500	11,000	8,959	2,041
Governing board	9,000	11,895	8,885	3,010
School administration	129,715	136,965	131,141	5,824
Pupil transportation services	5,600	5,600	5,781	(181)
Operation of plant	79,140	129,520	104,487	25,033
Total charges to appropriations	<u>681,756</u>	<u>780,881</u>	<u>778,015</u>	<u>2,866</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>15,736</u>	<u>(68,865)</u>	<u>\$ 37</u>	<u>\$ 68,902</u>
Budgeted excess inflows	<u>(15,736)</u>	<u>68,865</u>		
NET CHANGE IN FUND BALANCE:	<u>\$ -</u>	<u>\$ -</u>		

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Resources/inflows of resources

Actual amounts (budgetary basis) "total resources" from the budgetary comparison schedule	\$ 778,052
Differences - budget to GAAP:	
School District of Polk County, Florida's administration fee budgeted as a reduction in budgetary inflows rather than as a budgetary outflow	29,457
Community services - aftercare inflows are budgeted net of the associated outflows	<u>7,143</u>
Total revenue as reported on the statement of revenues, expenditures and change in fund balance	<u>\$ 814,652</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 778,015
Differences - budget to GAAP:	
School District of Polk County, Florida's administration fee budgeted as a reduction in budgetary inflows rather than as a budgetary outflow	29,457
Community services - aftercare outflows are budgeted net of the associated inflows	<u>3,602</u>
Total expenditures as reported on the statement of revenues, expenditures and change in fund balance	<u>\$ 811,074</u>

See Auditor's Report

OTHER REPORTS

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 Directors
Magnolia Montessori Academy, Inc.

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 the governmental activities and each major fund of Magnolia Montessori Academy, Inc. (the "School") a charter of the School District of Polk County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 17, 2017.

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 opinions on the financial statements, but not for the purpose of 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 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. 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 or other matters that are required to be reported under *Government Auditing Standards*.

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*

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Auburndale, Florida
August 17, 2017

MANAGEMENT LETTER

To the Board of Directors
Magnolia Montessori Academy, Inc.

Report on the Financial Statements

We have audited the financial statements of Magnolia Montessori Academy, Inc., (the "School"), a charter school of the School District of Polk County, Florida, as of and for the fiscal year ended June 30, 2017, and have issued our report thereon dated August 17, 2017.

Auditor's Responsibility

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.

Other Reports and Schedules

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in this report, which is dated August 17, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial report.

Financial Condition

Sections 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit of the financial statements of the School, the results of our tests did not indicate the School met any of the specified conditions of a financial emergency described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for the School. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

MANAGEMENT LETTER

(cont...)

Other Matters

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have the following recommendations.

Recommendation 2017-01: General Accounting Internal Controls

Condition: During our audit, we noted that internal controls over key transaction cycles were not adequately designed. The transaction cycles included accounting for prekindergarten activity, sick and personal leave, PayPal transactions and employee benefit calculations.

Criteria: Adequate internal controls, including segregation of duties, are required to be designed to provide reasonable assurance that the activity related to key transaction cycles are complete and accurately recorded in the School's accounting systems.

Cause: Improper design of general accounting internal controls.

Effect: The internal control deficiencies noted above could result in misstatements due to errors or fraud which could remain undetected by management or those charged with governance.

Recommendation: We recommend management properly design and implement internal controls over general accounting procedures to provide reasonable assurance that the School financial activity is accurately recorded in the accounting system. These internal control activities include segregation of duties; proper authorization and approval; reconciliation and review; and physical security of School assets.

Management's Response: Month-end procedures have been updated to include a reconciliation between the collections spreadsheet and QuickBooks deposits. All sick or personal day requests must be approved by the Director of Education and then posted to the tracking spreadsheet and checked against the online calendar. The PayPal balance will be posted to QuickBooks in detail. Employee insurance review will be added to the quarterly procedures.

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit we did not have any such findings.

MANAGEMENT LETTER

(concluded)

Official Title

Section 10.854(1)(e)5, Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Magnolia Montessori Academy, Inc.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Auburndale, Florida
August 17, 2017