



**A Charter School and Component Unit of the
Polk County District School Board**

**FINANCIAL STATEMENTS AND AUDITORS' REPORTS
June 30, 2016**

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FINANCIAL SECTION

MONTESSORI MIDDLE SCHOOL, INC.
A Charter School and Component Unit of the School District of Polk County, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Unaudited)
JUNE 30, 2016

The management's discussion and analysis (MD&A) provides an overview of Montessori Middle School, Inc. ("School") activities for the year ended June 30, 2016 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

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$281,892 (net position).
- The School's total net position increased by \$57,650.
- As of the close of the current fiscal year, the School's general fund reported ending fund balance of \$278,603, an increase of \$69,883 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the governmental funds was \$191,551 which represents 49% of the total expenditures for the year ended June 30, 2016.

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 Montessori Middle School, 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 outflows 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.

MONTESSORI MIDDLE SCHOOL, INC.
A Charter School and Component Unit of the School District of Polk County, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Unaudited)
JUNE 30, 2016

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 to the 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.

MONTESORI MIDDLE SCHOOL, INC.
A Charter School and Component Unit of the School District of Polk County, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Unaudited)
JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

	Statement of Net Position			
	Governmental Activities			
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>Change</u>	<u>%</u>
Assets				
Current assets	\$ 309,774	\$ 258,686	\$ 51,088	20%
Capital Assets, Net	<u>3,289</u>	<u>15,522</u>	<u>(12,233)</u>	<u>-79%</u>
Total Assets	<u>313,063</u>	<u>274,208</u>	<u>38,855</u>	<u>14%</u>
Liabilities				
Current Liabilities	31,171	49,966	(18,795)	-38%
Non-current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	
Total Liabilities	<u>31,171</u>	<u>49,966</u>	<u>(18,795)</u>	<u>-38%</u>
Net Position				
Net Investment in				
Capital Assets	3,289	15,522	(12,233)	-79%
Unrestricted	<u>278,603</u>	<u>208,720</u>	<u>69,883</u>	<u>33%</u>
Total Net Position	<u>\$ 281,892</u>	<u>\$ 224,242</u>	<u>57,650</u>	<u>26%</u>

Of the two components of the School's net position, the largest portion is the unrestricted portion and the remaining portion of net position reflects the School's net investment in capital assets. The School uses these capital assets to provide services to students so these assets are not available for future spending. The School's net investment in capital assets totaled \$3,289 as of June 30, 2016.

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 \$281,892 at the close of the current fiscal year. Unrestricted net position is approximately 99% of the total net position and the School's investment in capital assets makes up the remaining 1%.

MONTESSORI MIDDLE SCHOOL, INC.
A Charter School and Component Unit of the School District of Polk County, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Unaudited)
JUNE 30, 2016

The key elements of the changes in the School's net position for the fiscal year ended June 30, 2015 and 2016 are as follows.

Statement of Activities				
for the fiscal year ended,				
	6/30/2016	6/30/2015	Change	%
Revenues:				
Program revenues				
Operating grants	\$ 80,020	\$ 70,696	\$ 9,324	13%
General Revenue	373,911	354,796	19,115	5%
Total revenues	<u>453,931</u>	<u>425,492</u>	<u>28,439</u>	<u>7%</u>
Expenses:				
Instruction	233,284	195,809	37,475	19%
Instructional support	4,933	3,530	1,403	40%
Board	6,389	7,517	(1,128)	-15%
School administration	77,425	73,461	3,964	5%
Central services	7,009	7,283	(274)	-4%
Student transportation	3,778	9,506	(5,728)	-60%
Operation of plant	63,463	63,368	95	0%
Total expenses	<u>396,281</u>	<u>360,474</u>	<u>35,807</u>	<u>10%</u>
Increase (decrease) in Net Position	<u>\$ 57,650</u>	<u>\$ 65,018</u>	<u>(7,368)</u>	<u>-11%</u>

The School's total revenues were \$453,931 for 2016 while the total expenses of all programs and services were \$396,281. This resulted in an increase in net position of \$57,650 compared to an increase in net position of \$65,018 in the previous year. While net position increased during the current year, the increase was \$7,368 less than the prior year due to a \$35,807 increase in expenses coupled with a \$28,439 increase in revenue.

The largest revenue source for the School is the State of Florida (83 %). 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.

MONTESSORI MIDDLE SCHOOL, INC.
A Charter School and Component Unit of the School District of Polk County, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS – (Unaudited)
JUNE 30, 2016

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds - As of June 30, 2016, the School's general fund report a positive fund balance of \$278,603. The unassigned component of fund balance totaled \$191,551 or 49% of 2015-2016 general fund expenditures.

During the current fiscal year, the fund balance of the School's general fund increased by \$69,883 compared to a increase of \$72,448 in the previous year.

BUDGETARY HIGHLIGHTS

The general fund budget for the fiscal year ended June 30, 2016, 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, 2016, actual revenues were \$19,281 greater than the final budgeted amount and actual expenditures were less than budgeted appropriations by \$11,386 resulting in an overall positive budget variance of \$30,667.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At June 30, 2016, the School had \$38,182 in capital assets, less accumulated depreciation of \$34,893, for net capital assets of \$3,289. Depreciation charges for the current fiscal year totaled \$7,331. More information about the School's capital assets is presented in the notes to financial statements.

Debt: At June 30, 2016, the School had no long-term liabilities.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

A majority of the School's funding is determined by the number of enrolled students. The School is forecasting enrollment for the 2016 – 2017 School year to remain constant at approximately 60 full-time equivalent students.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Montessori Middle School's administrative offices at 1124 North Lake Parker Avenue, Lakeland, Florida 33805.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Montessori Middle School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Montessori Middle School, Inc., (the "School"), a charter school and component unit of the School District of Polk County, Florida, as of and for the year ended June 30, 2016, 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 Montessori Middle School, Inc., as of June 30, 2016, 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 on pages M1–M5 and page 18 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 September 27, 2016, on our consideration of Montessori Middle School 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 Montessori Middle School, Inc.'s internal control over financial reporting and compliance.

Brynjulfson CPA, P.A.

Brynjulfson CPA, P.A.
Auburndale, Florida
September 27, 2016

MONTESORI MIDDLE SCHOOL, INC.
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 306,723
Receivables, net	
Intergovernmental	1,216
Prepaid expenses	1,835
Capital assets, net	
Depreciable	<u>3,289</u>
TOTAL ASSETS	<u>313,063</u>
LIABILITIES	
Accounts payable and accrued wages	10,788
Due to Lakeland Montessori Schoolhouse, Inc.	4,629
Unearned revenue	<u>15,754</u>
TOTAL LIABILITIES	<u>31,171</u>
NET POSITION	
Net investment in capital assets	3,289
Unrestricted	<u>278,603</u>
TOTAL NET POSITION	<u>281,892</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 313,063</u></u>

See Accompanying Notes to Financial Statements

MONTESSORI MIDDLE SCHOOL, INC.
STATEMENT OF ACTIVITIES
for the year ended June 30, 2016

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	\$ 233,284	\$ -	\$ 67,325	\$ -	\$ (165,959)
Instructional support services	4,933	-	1,195	-	(3,738)
Board	6,389	-	-	-	(6,389)
School administration	77,425	-	-	-	(77,425)
Central services	7,009	-	-	-	(7,009)
Student transportation services	3,778	-	1,957	-	(1,821)
Operation of plant	63,463	-	9,543	-	(53,920)
Total governmental activities	<u>\$ 396,281</u>	<u>\$ -</u>	<u>\$ 80,020</u>	<u>\$ -</u>	<u>(316,261)</u>
GENERAL REVENUES:					
State and local passed through local school district					364,866
Gain on sale of capital assets					7,943
Interest income					52
Other					1,050
Total general revenues					<u>373,911</u>
CHANGE IN NET POSITION					57,650
NET POSITION - beginning of year					<u>224,242</u>
NET POSITION - end of year					<u>\$ 281,892</u>

See Accompanying Notes to Financial Statements

MONTESSORI MIDDLE SCHOOL, INC.
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	General Fund
ASSETS	
Cash and cash equivalents	\$ 306,723
Receivables, net	
Intergovernmental	1,216
Prepaid expenditures	<u>1,835</u>
TOTAL ASSETS	<u><u>\$ 309,774</u></u>
LIABILITIES AND FUND BALANCE	
Accounts payable and accrued wages	\$ 10,788
Due to Lakeland Montessori Schoolhouse, Inc.	4,629
Unearned revenue	<u>15,754</u>
TOTAL LIABILITIES	<u>31,171</u>
FUND BALANCE:	
Nonspendable:	
Prepaid expenditures	1,835
Assigned for:	
Equipment	29,617
Curriculum	20,700
Professional development	34,900
Unassigned	<u>191,551</u>
TOTAL FUND BALANCE	<u>278,603</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 309,774</u></u>

See Accompanying Notes to Financial Statements

MONTESSORI MIDDLE SCHOOL, INC.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION**

June 30, 2016

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	278,603
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**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.		3,289
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NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>281,892</u>
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See Accompanying Notes to Financial Statements

MONTESORI MIDDLE SCHOOL, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS
for the year ended June 30, 2016

	<u>General Fund</u>
REVENUES:	
Intergovernmental:	
Federal passed through local school district	\$ 6,397
State and local school district	376,365
Contributions and other local sources	76,019
Interest revenue	<u>52</u>
Total revenues	<u>458,833</u>
EXPENDITURES:	
Instruction	225,953
Instructional support services	4,933
Board	6,389
School administration	77,425
Central services	7,009
Student transportation services	3,778
Operation of plant	<u>63,463</u>
Total expenditures	<u>388,950</u>
NET CHANGE IN FUND BALANCE	69,883
FUND BALANCE, beginning of year	<u>208,720</u>
FUND BALANCE, end of year	<u><u>\$ 278,603</u></u>

See Accompanying Notes to Financial Statements

MONTESSORI MIDDLE SCHOOL, 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, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	69,883
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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 and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.

(7,331)

In the statement of activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold

(4,902)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>57,650</u>
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See Accompanying Notes to Financial Statements

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Montessori Middle School, 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 26, 2009. 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 is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units. The original charter became effective on July 1, 2010 for a four-year term and was extended on March 11, 2014 for eleven years through the school year ending June 30, 2025. 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 for 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.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, 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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 and, are collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

CAPITAL ASSETS - Expenditures for capital assets acquired for School purposes are reported in the general fund. Property and equipment having an original 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, is reported at cost, net of accumulated depreciation, in the government-wide financial statements. Donated assets are recorded at fair market value as of the date received. Other costs incurred for repairs and maintenance are expensed as incurred.

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

	<u>Years</u>
Furniture and equipment	3-5

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and affect revenues and expenses/expenditures for the period presented. 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.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

INCOME TAXES (cont...)

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, 2013.

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 2% administrative fee from the School, which is reflected as a central services expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes 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, 2016, the School had no unspent capital outlay funds.

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 on 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.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

EQUITY CLASSIFICATIONS (cont...)

- 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.
- b) Restricted - amounts constrained to specific purposes by external purposes by external providers or imposed by law through constitutional provisions or by enabling legislation.
- 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.
- d) Assigned - amounts the School intends to use for a specific purpose but are neither restricted nor committed. Assignments can be made by the Board of Directors or by an official or body which the Board of Directors have delegated the authority.
- e) Unassigned - includes residual positive fund balance which has not been classified within the other above mentioned categories.

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 5.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 budgetary basis for the general fund differs from the basis used for financial reporting purposes in that it includes an allowance for depreciation.

NOTE 3 - CASH

The School's deposits are insured by the FDIC up to \$250,000 per financial institution. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the Chief Financial Officer, State of Florida ("CFO") in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the CFO will implement procedures for payment of losses according to the validated claims of the School pursuant to Section 280.08, Florida Statutes.

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	\$	306,723
Total cash and cash equivalents	\$	306,723

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<u>Governmental Activities:</u>				
Capital assets being depreciated:				
Furniture and equipment	\$ 89,254	\$ -	\$ (51,072)	\$ 38,182
Total	89,254	-	(51,072)	38,182
Less accumulated depreciation for:				
Furniture and equipment	(73,732)	(7,331)	46,170	(34,893)
Total accumulated depreciation	(73,732)	(7,331)	46,170	(34,893)
Depreciable capital assets, net	\$ 15,522	\$ (7,331)	\$ (4,902)	\$ 3,289

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 - CAPITAL ASSETS (cont...)

Depreciation expense was charged to the following programs and functions:

Governmental Activities:

Instruction	\$ 7,331
Total depreciation expense - governmental activities	<u>\$ 7,331</u>

NOTE 5 - RISK MANAGEMENT

Commercial insurance protection with normal deductibles is in place to limit the School's exposure from losses arising from liability, and property and equipment damages for which there has been no significant reduction in coverages, nor have settlement amounts exceeded the School's coverages during the year ended June 30, 2016 nor during the previous two fiscal years. All employees are leased from a third party provider and workers' compensation is provided for by the leasing company at statutory amounts.

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, 2016, management was not aware of any legal actions or proceedings pending against the School.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 - RELATED PARTY

The School is related to Lakeland Montessori Schoolhouse, Inc. ("LMS"), a charter school and component unit of the District, through common board members. During the 2015-2016 school year, the School paid LMS \$21,296 pursuant to a cost sharing arrangement for administrative services provided by the LMS's Director of Finance and Strategic Planning.

Effective July 1, 2014, the former staff of the School became leased employees of LMS. The costs of the staff who provide services to the School are charged to the School as the related payroll costs are incurred under a cost sharing arrangement which totaled \$201,472 for the year ended June 30, 2016. As of June 30, 2016, the School owed LMS \$4,629. This amount is reported as a separate component on the statement of net position and balance sheet on pages 3 and 5 respectively.

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.

During the fiscal year ended June 30, 2014, the School recorded a provision for future retirement contributions totaling \$10,002 that were earned during that fiscal year. Effective July 1, 2014, all of the School's staff became leased employees of LMS who has adopted an Internal Revenue Code Section 403(b) defined contribution pension plan (the "Plan"). This provision for future retirement contributions will be paid to the Plan upon each staff member completing three years of service as a leased employee of LMS. This provision for future retirement is reported as a component of accounts payable and accrued wages on the statement of net position and balance sheet at pages 3 and 5 respectively.

NOTE 8 - FACILITY LEASE

The School leases administrative and classroom space through an annual operating lease agreement. Facility lease expense for the fiscal year ended June 30, 2016 totaled \$59,590. As of March 9, 2016, the agreement was extended for an additional year through June 30, 2017. Based upon the extended agreement, the annual fee for the 2016-2017 school year is \$61,380. The agreement may be terminated by either party in the event of a breach of the agreement that cannot be reasonably cured within fifteen days after written notice of said breach.

MONTESSORI MIDDLE SCHOOL, INC.
A Component Unit of the School District of Polk County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 83% of total revenue for the year ended June 30, 2016. The following is a schedule of revenue sources and amounts for the year ended June 30, 2016.

<u>Sources</u>	<u>Amount</u>
School District of Polk County, Florida	
Base funding	\$ 267,908
Discretionary millage	12,812
Discretionary tax equalization allocation	11,948
Instructional materials allocation	4,524
Class size reduction	52,212
Digital classroom allocation	1,050
Student transportation	1,957
Capital outlay funding	9,543
Teacher supply allocation	524
School recognition	5,631
Best and brightest award	8,256
Federal grant revenue	6,397
Total revenue through the School District of Polk County, Florida	382,762
Other revenue:	
Parental support	3,660
Interest income	52
Donations and contributions	58,464
Proceeds for sale of capital assets	12,845
Miscellaneous	1,050
Total revenue	\$ 458,833

REQUIRED SUPPLEMENTARY INFORMATION

MONTESSORI MIDDLE SCHOOL, INC.**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (unaudited)**

for the year ended June 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RESOURCES (inflows):				
Intergovernmental:				
Federal passed through local school district	\$ 353,842	\$ 373,000	\$ 376,365	\$ 3,365
State and local school district	-	6,000	6,397	397
Contributions and other local sources	5,250	60,500	76,019	15,519
Interest revenue	-	50	52	2
Total resources	<u>359,092</u>	<u>439,550</u>	<u>458,781</u>	<u>19,281</u>
CHARGES TO APPROPRIATIONS (outflows):				
Instruction	181,617	241,550	233,284	8,266
Instructional support services	8,272	6,375	4,933	1,442
Board	8,402	6,800	6,389	411
School administration	77,865	79,850	77,425	2,425
Central services	6,653	7,500	7,009	491
Student transportation services	800	2,000	3,778	(1,778)
Operation of plant	65,486	63,592	63,463	129
Total charges to appropriations	<u>349,095</u>	<u>407,667</u>	<u>396,281</u>	<u>11,386</u>
EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS	<u>9,997</u>	<u>31,883</u>	<u>\$ 62,500</u>	<u>\$ 30,667</u>
Budgeted excess inflows	-	-		
BUDGETED CHANGE IN FUND BALANCE:	<u>\$ 9,997</u>	<u>\$ 31,883</u>		

Explanation of Differences between Budgetary Inflows and Outflows and GAAP**Revenues and Expenditures:****Uses/outflows of resources**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule

\$ 396,281

Differences - budget to GAAP:

To adjust outflows for budgeted allowance for depreciation

(7,331)

Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance

\$ 388,950

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
Montessori Middle School, 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 Montessori Middle School, Inc. (the "School") a charter school and component unit of the School District of Polk County, Florida, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 27, 2016.

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
September 27, 2016

MANAGEMENT LETTER

To the Board of Directors
Montessori Middle School, Inc.

Report on the Financial Statements

We have audited the financial statements of Montessori Middle School, Inc., (the "School"), a charter school and component unit of the School District of Polk County, Florida, as of and for the fiscal year ended June 30, 2016, and have issued our report thereon dated September 27, 2016.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the *Comptroller General of the United States* and Chapter 10.850, Rules of the Auditor General.

Other Reports

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 September 27, 2016, 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. There were no prior audit findings.

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, we determined that the School did not meet any of the specified conditions of a financial emergency described in Section 218.503(1), Florida Statutes.

Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, require that we apply 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 apply appropriate procedures to determine 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 any such recommendations.

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.

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 Montessori Middle School, 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, the School District of Polk County, Florida 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
September 27, 2016