

BELLA MENTE MONTESSORI ACADEMY
CHARTER SCHOOL #1515
SAN DIEGO, CALIFORNIA

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

YEAR ENDED JUNE 30, 2018

BELLA MENTE MONTESSORI ACADEMY
Financial Statements and Supplemental Information
Year Ended June 30, 2018

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Independent Auditor's Report

To the Board of Directors of
Bella Mente Montessori Academy

Report on the Financial Statements

We have audited the accompanying financial statements of Bella Mente Montessori Academy (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bella Mente Montessori Academy as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as required by the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of Bella Mente Montessori Academy'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 Bella Mente Montessori Academy's internal control over financial reporting and compliance.

El Cajon, California
December 10, 2018

Financial Statements

BELLA MENTE MONTESSORI ACADEMY

Statement of Financial Position

June 30, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,959,303
Accounts receivable	8,543
Accounts receivable grantor governments	579,230
Accounts receivable related entity	81,628
Prepaid expenses	129,829
Total Current Assets	<u>3,758,533</u>

Noncurrent Assets

Capital assets, net	9,814,259
Total Noncurrent Assets	<u>9,814,259</u>

TOTAL ASSETS \$ 13,572,792

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 28,954
Accounts payable grantor governments	63,236
Accrued expenses	241,760
Capital leases, current portion	99,189
Total Current Liabilities	<u>433,139</u>

Long Term Liabilities

Capital leases, less current portion	11,899,918
Total Long Term Liabilities	<u>11,899,918</u>

Total Liabilities 12,333,057

Net Assets

Unrestricted	1,061,664
Temporarily restricted	178,071
Total Net Assets	<u>1,239,735</u>

TOTAL LIABILITIES AND NET ASSETS \$ 13,572,792

The accompanying notes are an integral part of this statement.

BELLA MENTE MONTESSORI ACADEMYStatement of Activities
Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Revenue			
LCFF state aid, current year	\$ 2,919,685	\$ -	\$ 2,919,685
LCFF state aid, prior year	(32,487)	-	(32,487)
Education protection account funds	121,824	-	121,824
Payments in lieu of property taxes	1,782,395	-	1,782,395
Federal revenue	-	205,462	205,462
Other state revenue	934,418	373,770	1,308,188
Interest	26,336	-	26,336
Other local revenue	257,701	-	257,701
Total Revenues	<u>6,009,872</u>	<u>579,232</u>	<u>6,589,104</u>
Net assets released from restrictions:			
Grant restrictions satisfied	<u>632,352</u>	<u>(632,352)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>6,642,224</u>	<u>(53,120)</u>	<u>6,589,104</u>
EXPENSES			
Certificated salaries	2,014,037	-	2,014,037
Noncertificated salaries	782,617	-	782,617
Taxes and employee benefits	617,214	-	617,214
Books and supplies	337,982	-	337,982
Rentals, leases and repairs	132,261	-	132,261
Other operating expenditures	1,023,493	-	1,023,493
Debt service interest	1,108,041	-	1,108,041
Depreciation expense	619,295	-	619,295
TOTAL EXPENSES	<u>6,634,940</u>	<u>-</u>	<u>6,634,940</u>
CHANGE IN NET ASSETS	7,284	(53,120)	(45,836)
NET ASSETS, BEGINNING OF YEAR	<u>1,054,380</u>	<u>231,191</u>	<u>1,285,571</u>
NET ASSETS, END OF YEAR	<u>\$ 1,061,664</u>	<u>\$ 178,071</u>	<u>\$ 1,239,735</u>

The accompanying notes are an integral part of this statement.

BELLA MENTE MONTESSORI ACADEMY

Statement of Cash Flows
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (45,836)
Depreciation	619,295
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) Decrease resulting from changes in assets:	
Accounts receivable	488,980
Due from grantor government	(579,230)
Due from related entity	(81,628)
Prepaid expenses	(96,692)
Increase (Decrease) resulting from changes in liabilities:	
Accounts payable	(242,418)
Due to grantor governments	63,236
Accrued expenses	241,760
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>367,467</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of capital assets	<u>(40,772)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(40,772)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on capital leases	<u>(49,233)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(49,233)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	277,462
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,681,841</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,959,303</u>

The accompanying notes are an integral part of this statement.

BELLA MENTE MONTESSORI ACADEMY

Notes to the Financial Statements

Year Ended June 30, 2018

A. Organization and Summary of Significant Accounting Policies

Organization

Bella Mente Montessori Academy (the school) was formed on September 9, 2011 as a charter school pursuant to California Education Code §47600 under a charter agreement with Vista Unified School District (the District). The school became a nonprofit public benefit corporation on September 9, 2011. The charter agreement was approved by Vista Unified School District and submitted to the California Board of Education in May 2013. The school began operations on September 3, 2013.

Bella Mente Montessori is a tuition-free, K-8 Vista Charter school. The School offers an authentic Montessori education with classroom limited to a 1:25 teacher/student ratio and part time classroom aide. The School's intent is to promote an educational atmosphere that encourages socioeconomic diversity by providing all students with the opportunity to obtain a quality public education. The School aims to prepare each of their students with the skills, knowledge, and values to participate meaningfully in the pluralistic world of the 21st century.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 958, Financial Statements of Not-for-Profit Organizations. Under ASC No. 958, the School is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor or grant restrictions.
- Temporarily restricted net assets consist of contributed funds or grants subject to donor or grant imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the School may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

The School had no permanently restricted net assets during the year.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the School considers all highly liquid debt equity instruments purchased with an original maturity of three months or less to be cash equivalents.

BELLA MENTE MONTESSORI ACADEMY

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

Investments

The School's method of accounting for investments, in accordance with generally accepted accounting principles, is the fair value method. Fair value is determined by published quotes. Changes in fair value of investments results in increases or decreases in unrealized fair values of equity investments. Adjustments to fair values are reflected as unrealized gain/loss on investments in the accompanying statement of activities. As of June 30, 2018 the School did not have any investments.

Accounts Receivable

Accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. No allowance was considered necessary as management believes that all amounts are collectible.

Capital Assets

Property and equipment are recorded at cost, or estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The cost of assets sold or retired and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the School's earnings. Management has elected to capitalize and depreciate all assets costing \$5,000 or more; all other assets are charged to expense in the year incurred. The School's policy is to evaluate the remaining lives and recoverability in light of the current conditions. It is reasonably possible that the School's estimate to recover the carrying amount of the property and equipment will change. Estimated useful lives range from three to fifty years depending on the asset.

Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition or when resources are received by the School prior to the School meeting the requirements for legal claim to the resources.

In subsequent periods, when both revenue recognition criteria are met or when the School has legal claim to the resources, the liability for unearned revenue is removed from the statement of financial position and revenue is recognized.

As of June 30, 2018, the School does not have any unearned revenue.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any restrictions.

All donor or grant restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

BELLA MENTE MONTESSORI ACADEMY

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

Contributed Materials and Services

Contributed materials are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate. The School receives services donated by volunteers in carrying out the School's operations. The services do not meet the criteria as contributions and are, therefore, not recognized in the financial statements.

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contribution of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School reclassifies temporarily restricted net assets to unrestricted net assets at that time.

LCFF Revenues and Payments in Lieu of Property Taxes

The School's primary funding source is a combination of local property taxes and state revenues. The California Department of Education computes the local control funding formula (LCFF) on statewide charter school rates multiplied by the School's average daily attendance (ADA) as reported at the Second Principal apportionment period (P2). The result is then reduced by property tax revenues transferred from the District to the School, which is funding in lieu of property taxes and education protection account funds paid by the state under proposition 30. The remaining balance is paid from the state general fund, in the form of LCFF State Aid. LCFF funding sources, inclusive of state and local sources, made up 73% of the school's revenue. The School is not at risk of losing these funding sources, as long as the school maintains a steady level of ADA, as these funding sources are mandated by the California State Constitution to fund schools.

Advertising

Advertising costs are expensed when incurred.

Income Taxes

The School is a 509(a)(1) publicly supported non-profit organization that is exempt from income taxes under Sections 501(a) and 501(c)(3) of the Internal Revenue Code. The School is also exempt from California franchise or income tax under Section 23701d of the California Revenue and Taxation Code. The School may be subject to tax on income which is not related to its exempt purpose. For the year ended June 30, 2018, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The School follows provisions of uncertain tax positions as addressed in ASC 958. The School recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions for the year ended June 30, 2018.

BELLA MENTE MONTESSORI ACADEMY

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

The School files informational and income tax returns in the United States and in the state of California. The federal income tax and informational returns are subject to examination by the Internal Revenue Service for three years after the returns are filed. State and local jurisdictions have statutes of limitation that generally range from three to five years.

New Accounting Guidance

The Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) that are effective during the 2017-18 fiscal year:

1. FASB ASU 2018-06 *Codification Improvements to Topic 942, Financial Services – Depository and Lending*
2. FASB ASU 2017-05 *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*
3. FASB ASU 2016-17 *Consolidation (Topic 810): Interests Held through Related Parties that are under Common Control*
4. FASB ASU 2016-07 *Investments – Equity Method and Joint Ventures (Topic 323)*

These updates were issued to provide clarification and simplification in accounting for certain transactions. In addition, they provide for additional note disclosures to create transparency involving these transactions. The updates effective during the 2017-18 fiscal year did not impact the financial accounting or presentation for the School. No adjustments have been made as a result of the new accounting guidance.

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through December 7, 2018, the date the financial statements were available to be issued.

B. Cash and Cash Equivalents

Cash in County Treasury

The School is a voluntary participant and therefore maintains a portion of its cash in the San Diego County Treasury as part of the common investment pool (\$2,179,612 as of June 30, 2018). The County Treasury is restricted by Government Code §53635 pursuant to §53601 to invest in time deposits, U.S. Government Securities, state registered warrants, notes or bonds, State Treasurer's investment pool, banker's acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse agreements.

The fair value of the School's investment in this pool is reported in the accompanying financial statements at amounts based upon the School's pro-rata share of the fair value provided by the County Treasury for the entire County Treasury portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasury, which are recorded on an amortized cost basis.

Cash in Bank

The remainder of the School's cash (\$779,691 as of June 30, 2018) is held in financial institutions which are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or certain non-interest bearing accounts that are fully insured by the FDIC. As of June 30, 2018, the School had cash of \$597,270 that was exposed to uninsured deposit risk.

BELLA MENTE MONTESSORI ACADEMY

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

C. Accounts Receivable

As of June 30, 2018, accounts receivable consisted of:

	Accounts Receivable	Accounts Receivable Grantor Government	Accounts Receivable Related Entity
Federal Government:			
Child nutrition	\$ -	\$ 22,195	\$ -
Title I	-	38,071	-
Other federal programs	-	15,094	-
State Government:			
Special Education	-	32,590	-
	-	288,084	-
Lottery Revenue	-	23,215	-
Other State Grants	-	1,819	-
Local Sources:			
Interest	-	3,442	-
In Lieu of Property Taxes	-	154,720	-
Other Local Sources	8,543	-	81,628
Total Accounts Receivable	<u>\$ 8,543</u>	<u>\$ 579,230</u>	<u>\$ 81,628</u>

D. Capital Assets

As of June 30, 2018, capital assets consisted of:

	Beginning Balance	Increases	Decreases	Ending Balance
Work in progress	\$ -	\$ 37,868	\$ -	\$ 37,868
Building	11,975,916	-	-	11,975,916
Land improvements	38,097	-	-	38,097
Building improvements	74,016	-	-	74,016
Equipment	65,665	2,904	-	68,569
Total capital assets	12,153,694	40,772	-	12,194,466
Less accumulated depreciation	<u>(1,760,912)</u>	<u>(619,295)</u>	<u>-</u>	<u>(2,380,207)</u>
Capital assets, net	<u>\$ 10,392,782</u>	<u>\$ (578,523)</u>	<u>\$ -</u>	<u>\$ 9,814,259</u>

BELLA MENTE MONTESSORI ACADEMY

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

E. Prepaid Expenses

As of June 30, 2018, prepaid expenses consisted of:

Prepaid insurance	\$	116,113
Prepaid vendors		<u>13,716</u>
Total Prepaid Expenses	\$	<u>129,829</u>

F. Accounts Payable

As of June 30, 2018, accounts payable consisted of:

	Accounts Payable	Accounts Payable Grantor Governments	Accrued Expenses
Vendors Payable	\$ 28,137	\$ -	\$ -
Credit Card Payable	817	-	-
Accrued Payroll Liabilities	-	-	241,760
Payable to Grantor Government	<u>-</u>	<u>63,236</u>	<u>-</u>
Total Accounts Payable	<u>\$ 28,954</u>	<u>\$ 63,236</u>	<u>\$ 241,760</u>

G. Temporarily Restricted Net Assets

Temporarily restricted ending net assets consisted of net investment in capital assets and restricted grants which have not been fully expensed. Once the funds have been expensed for an allowable purpose, they will be reclassified to unrestricted net assets. As of June 30, 2018, temporarily restricted ending net assets consisted of:

California Clean Energy	\$	<u>178,071</u>
Total Temporarily Restricted Net Assets	\$	<u>178,071</u>

BELLA MENTE MONTESSORI ACADEMY

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

H. Operating Leases

On April 23, 2013 the School entered into a lease agreement with HighMark School Development, LLC (developer) and Bella Mente Project Development, LLC (tenant) for use of facilities. The agreement provided for monthly payments for a period of 240 months. Payments included interest at a rate of 6.89%. Lease payments also include a development phase. As of June 30, 2018 the School was obligated for the following remaining payments:

Future minimum lease payments under the agreement are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 90,189	\$ 1,101,804	\$ 1,191,993
2020	136,168	1,091,585	1,227,753
2021	187,686	1,076,900	1,264,586
2022	245,309	1,057,214	1,302,523
2023	309,659	1,031,940	1,341,599
2024-2028	2,800,653	4,535,761	7,336,414
2029-2033	5,900,838	2,604,085	8,504,923
2034	2,328,614	50,476	2,379,090
Total	<u>\$ 11,999,116</u>	<u>\$ 12,549,765</u>	<u>\$ 24,548,881</u>

I. Commitments and Contingencies*State and Federal Allowances, Awards, and Grants*

The School has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any required reimbursement will not be material. As a result, no liability has been accrued.

Sick Leave

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulate sick leave. Employees, therefore, are never paid for any sick leave balance at termination of employment or any other time. Therefore, it is not appropriate to accrue the value of the accumulated sick leave.

BELLA MENTE MONTESSORI ACADEMY

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

J. Functional Expenses

As of June 30, 2018, functional expenses consisted of:

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 2,281,920	\$ 514,734	\$ 2,796,654
Other employee benefits	332,004	74,890	406,894
Payroll taxes	171,610	38,710	210,320
Fees for services (non-employees):			
Management	-	158,367	158,367
Legal	-	68,075	68,075
Accounting	-	7,250	7,250
Other: Consultants	367,485	68,296	435,781
Other: District oversight fees	-	-	-
Other: Bank and payroll processing fees	-	12,284	12,284
Advertising and promotion	-	12,426	12,426
Office expenses	81,535	-	81,535
Information technology	44,898	-	44,898
Occupancy	106,045	-	106,045
Travel	5,533	-	5,533
Conferences, conventions and meetings	45,560	-	45,560
Interest	-	1,108,041	1,108,041
Payments to affiliates	-	-	-
Depreciation	619,295	-	619,295
Insurance	-	61,801	61,801
All other expenses:			
Books and curriculum	90,597	-	90,597
Supplies	190,659	-	190,659
Small equipment and furniture	82,942	-	82,942
District oversight fee	-	48,146	48,146
Student events	25,905	-	25,905
Other services and operating expenses	-	12,991	12,991
Miscellaneous expenses	-	2,941	2,941
Total expenses	<u>\$ 4,445,988</u>	<u>\$ 2,188,952</u>	<u>\$ 6,634,940</u>

BELLA MENTE MONTESSORI ACADEMY

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

K. Upcoming Changes in Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) that become effective during the 2018-19 fiscal year:

1. FASB ASU 2018-03 *Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*
2. FASB ASU 2017-09 *Compensation – Stock Compensation (Topic 718)*
3. FASB ASU 2017-07 *Compensation – Retirement Benefits (Topic 715)*
4. FASB ASU 2017-01 *Business Combinations (Topic 805)*
5. FASB ASU 2016-16 *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*
6. FASB ASU 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*
7. FASB ASU 2016-09 *Compensation – Stock Compensation (Topic 718)*
8. FASB ASU 2016-06 *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*
9. FASB ASU 2016-05 *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*
10. FASB ASU 2016-04 *Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored Value Products*
11. FASB ASU 2015-17 *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*

These updates were issued to provide clarification and simplification in accounting for certain transactions. In addition, they provide for additional note disclosures to create transparency involving these transactions. The updates effective during the 2018-19 fiscal year will not impact the financial accounting or presentation for the School with exception of FASB ASU 2016-14.

FASB ASU 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* changes the classification and presentation of net assets. In addition, the update will provide for enhanced note disclosures that affect Not-for-Profit entities. No adjustments have been made as a result of the new accounting guidance.

L. Subsequent Events

Bella Mente Montessori Academy issued new general obligation bonds through their LLC on July 1, 2018. The total principal of the bonds is \$15,485,000 for Series A and \$485,000 for Series B. The Series A bonds have their final maturity on June 1, 2048 while the Series B bonds have their final maturity June 1, 2022. The Series A bonds were issued at a premium of \$805,006. These bonds will finance the purchase of the building that is currently in use by the school as a capital lease. The LLC will own the building and pay back the bonds, Bella Mente will pay the LLC as a capital lease equal to the principal and interest payments due for the bond.

Supplementary Information

BELLA MENTE MONTESSORI ACADEMY

Organization Structure
Year Ended June 30, 2018

Bella Mente Montessori Academy (Charter #1515) was established in 2013. The authorizing entity is Vista Unified School District.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
Paul Mingardi	President	Two Year Term Expires June 2021
Scott Moote	Treasurer	Two Year Term Expires June 2019
Caroline Veale	Secretary	Two Year Term Expires June 2019
Janet Figueroa	Member	Two Year Term Expires June 2019
Tom Reilly	Member	Two Year Term Expires June 2021

ADMINISTRATION

Erin Feeley, M. ED
Executive Director & Principal

BELLA MENTE MONTESSORI ACADEMY

Schedule of Average Daily Attendance

Year Ended June 30, 2018

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Original</u>	<u>Revised</u>	<u>Original</u>	<u>Revised</u>
Non-Classroom Based Attendance:				
Grades K-3	347.17	N/A	350.22	N/A
Grades 4-6	184.92	N/A	181.99	N/A
Grades 7-8	77.03	N/A	76.77	N/A
Total Non-Classroom Based Attendance	<u>609.12</u>	<u>N/A</u>	<u>608.98</u>	<u>N/A</u>
 Total Attendance	<u>609.12</u>	<u>N/A</u>	<u>608.98</u>	<u>N/A</u>

N/A – There were no audit findings which resulted in revisions to the second period or annual reports of attendance.

BELLA MENTE MONTESSORI ACADEMY

Schedule of Instructional Time

Year Ended June 30, 2018

<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Traditional Days</u>	<u>Status</u>
Transitional Kindergarten	36,000	51,285	180	Complied
Kindergarten	50,400	51,285	180	Complied
Grade 1	50,400	54,480	180	Complied
Grade 2	50,400	54,480	180	Complied
Grade 3	54,000	54,480	180	Complied
Grade 4	54,000	58,955	180	Complied
Grade 5	54,000	58,955	180	Complied
Grade 6	54,000	62,870	180	Complied
Grade 7	54,000	62,870	180	Complied
Grade 8	54,000	62,870	180	Complied

See accompanying notes to supplementary information

BELLA MENTE MONTESSORI ACADEMY

Schedule of Financial Trends and Analysis

Year Ended June 30, 2018

	Budget				
	2019	2018	2017	2016	2015
Revenues	\$ 7,551,857	\$ 6,589,104	\$ 6,132,875	\$ 5,939,742	\$4,740,966
Expenses	7,068,584	6,634,940	6,041,912	5,595,803	4,196,570
Change in Net Assets	<u>483,273</u>	<u>(45,836)</u>	<u>90,963</u>	<u>343,939</u>	<u>544,396</u>
Ending Net Assets	<u>\$ 1,723,008</u>	<u>\$ 1,239,735</u>	<u>\$ 1,285,571</u>	<u>\$ 1,194,608</u>	<u>\$ 850,669</u>
Unrestricted Net Assets	<u>\$ 1,542,187</u>	<u>\$ 1,061,664</u>	<u>\$ 1,285,571</u>	<u>\$ 1,194,608</u>	<u>\$ 850,669</u>
Unrestricted net assets as a percentage of total expenses	<u>22%</u>	<u>16%</u>	<u>21%</u>	<u>21%</u>	<u>20%</u>
Total Long Term Debt	<u>\$ 11,908,927</u>	<u>\$ 11,999,116</u>	<u>\$ 12,048,340</u>	<u>\$ 12,074,787</u>	<u>\$ 6,725,413</u>
Average Daily Attendance at P2	<u>699</u>	<u>609</u>	<u>632</u>	<u>586</u>	<u>516</u>

The School's ending net assets has increased by \$389,066 (46%) over the past three fiscal years. The significant increase is in large due to the increase in average daily attendance of 93 (18%) over the past three years combined with a commitment to build reserves to protect the school from changes in economic trends in future years. The 2018-19 fiscal year budget projects an increase in net assets of \$483,273 (39%).

See accompanying notes to supplementary information

BELLA MENTE MONTESSORI ACADEMY

Reconciliation of Unaudited Financial Report Alternative Form with Audited Financial Statements
Year Ended June 30, 2018

June 30, 2018 annual financial alternative form net assets	\$ 1,239,734
Adjustments and reclassifications:	
Rounding	<u>1</u>
Total adjustments and reclassifications	<u>1</u>
June 30, 2018 audited financial statement net assets	<u><u>\$ 1,239,735</u></u>

See accompanying notes to supplementary information

BELLA MENTE MONTESSORI ACADEMY

Notes to the Supplementary Information
Year Ended June 30, 2018

A. Purpose of Schedules

Organization Structure

This schedule provides information about the School's charter number, district of authorization, members of the governing board, and members of administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measure of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The School receives incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the School and whether they complied with the provisions of Education Code Sections 46200 through 46206. Charter schools must maintain their instructional minutes at the 1986-87 requirements as adjusted by Education Code sections later adopted. The School neither met nor exceeded its LCFF target.

Schedule of Financial Trends and Analysis

Budget information for 2019 is presented for analysis purposes only and is based on estimates of the 2018-19 fiscal year. The information has not been subject to audit.

This schedule discloses the School's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the School's ability to continue as a going concern for a reasonable period of time.

Reconciliation of Unaudited Financial Report Alternative Form with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance as reported on the Unaudited Financial Report Alternative Form to the net assets reported in the audited financial statements.

Other Independent Auditors' Reports



P. Robert Wilkinson, CPA
Brian K. Hadley, CPA
Mark Bomediano, CPA

Aubrey W. Mann, CPA
Kevin A. Sproul, CPA

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 of
Bella Mente Montessori Academy

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 Bella Mente Montessori Academy (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bella Mente Montessori Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bella Mente Montessori Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Bella Mente Montessori Academy'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 Bella Mente Montessori Academy'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

El Cajon, California
December 10, 2018

Independent Auditor's Report on State Compliance

To the Board of Directors
Bella Mente Montessori Academy

Report on State Compliance

We have audited the School's compliance with the types of compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of the School's state programs identified below for the fiscal year ended June 30, 2018.

Management's Responsibility for State Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit Guide *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance*, prescribed in Title 5, *California Code of Regulations*, section 19810. We conducted our audit of compliance 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 the State's audit guide *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the district's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the school’s compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other Than Charter Schools	
Attendance.....	N/A
Teacher Certification and Misassignments	N/A
Kindergarten Continuance.....	N/A
Independent Study.....	N/A
Continuation Education.....	N/A
Instructional Time	N/A
Instructional Materials.....	N/A
Ratio of Administrative Employees to Teachers.....	N/A
Classroom Teacher Salaries	N/A
Early Retirement Incentive.....	N/A
Gann Limit Calculation.....	N/A
School Accountability Report Card.....	N/A
Juvenile Court Schools.....	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	N/A
Transportation Maintenance of Effort.....	N/A
Apprenticeship: Related and Supplemental Instruction	N/A
School Districts, County Offices of Education and Charter Schools	
Educator Effectiveness.....	Yes
California Clean Energy Jobs Act.....	Yes
After School Education and Safety Program.....	N/A
Proper Expenditure of Education Protection Account Funds.....	Yes
Unduplicated Local Control Funding Formula Pupil Counts.....	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based.....	N/A
Charter Schools	
Attendance.....	Yes
Mode of Instruction	Yes
Nonclassroom Based Instruction/Independent Study.....	N/A
Determination of Funding for Nonclassroom Based Instruction.....	N/A
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program.....	N/A

The term N/A is used above to mean either the School did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

Opinion on State Compliance

In our opinion, Bella Mente Montessori Academy complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2018.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing. This report is an integral part of an audit performed in accordance with *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Accordingly, this report is not suitable for any other purpose.

El Cajon, California
December 10, 2018

Auditor's Results, Findings & Recommendations

BELLA MENTE MONTESSORI ACADEMY

Schedule of Auditor's Results

Year Ended June 30, 2018

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weakness(es) identified? Yes X No

One or more significant deficiencies identified that are not considered material weakness(es)? Yes X No

Noncompliance material to financial statements noted? Yes X No

STATE AWARDS

Any audit findings disclosed that are required to be reported in accordance with *2017-18 Guide for Annual Audits of California K-12 Local Education Agencies*? Yes X No

Type of auditor's report issued on compliance for state programs: Unmodified

BELLA MENTE MONTESSORI ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*, Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), or the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities
50000	Federal Compliance
60000	Miscellaneous
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

A. Financial Statement Findings

None

B. State Award Findings

None

BELLA MENTE MONTESSORI ACADEMY

Schedule of Prior Year Audit Findings

Year Ended June 30, 2018

Finding/Recommendation	Status	Explanation if Not Implemented
There were no findings reported in the prior year audit.	N/A	N/A