

**QUEST MIDDLE SCHOOL OF  
WEST LITTLE ROCK**

**REGULATORY BASIS FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2015**

**(WITH INDEPENDENT AUDITOR'S REPORTS THEREON)**

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**ANNUAL FINANCIAL REPORT**  
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**YEAR ENDED June 30, 2015**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Quest Middle School of West Little Rock

### Report on the Financial Statements

We have audited the accompanying regulatory basis financial statements of each major governmental fund of Quest Middle School of West Little Rock (the "Charter School") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's regulatory basis financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. §10-4-413(c) as provided in Act 2201 of 2005, as described in Note A, to meet the reporting requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express 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.

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

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

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

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Charter School, as of June 30, 2015, and the respective changes in financial position for the year then ended.

### **Unmodified Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund of the Charter School as of June 30, 2015, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. §10-4-413(c) as provided in Act 2201 of 2005 described in Note A.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School’s regulatory basis financial statements. The Schedule of Capital Assets, which is the responsibility of management, is presented for purposes of additional analysis as required by Ark. Code Ann. §10-4-413(c) as provided in Act 2201 of 2005. The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016, on our consideration of the Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control over financial reporting and compliance.

*Thomas & Thomas LLP*

Certified Public Accountants

Texarkana, Texas  
March 15, 2016

## **Regulatory Basis Financial Statements**

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**BALANCE SHEETS - REGULATORY BASIS**  
**JUNE 30, 2015**

	<b>Governmental Funds</b>	
	<b>Major</b>	
	<b>General</b>	<b>Special Revenue</b>
<b>ASSETS</b>		
<b>Assets</b>		
Cash (Overdraft)	\$ 180,119	\$ (223,561)
Accounts receivable	-	348,327
Due from Responsive Education Solutions and Related Charter Schools, net	-	3,021
Deposit	40,000	-
<b>TOTAL ASSETS</b>	<b>220,119</b>	<b>127,787</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Accounts payable	1,875	3,375
Accrued payroll and related expenditures	95,294	1,985
<b>Total Liabilities</b>	<b>97,169</b>	<b>5,360</b>
<b>Fund Balances</b>		
Restricted	-	122,427
Unassigned	122,950	-
<b>Total Fund Balances</b>	<b>122,950</b>	<b>122,427</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 220,119</b>	<b>\$ 127,787</b>

See auditor's report and accompanying notes to financial statements

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<b>Governmental Funds</b>	
	<b>Major</b>	
	<b>General</b>	<b>Special Revenue</b>
<b>REVENUES</b>		
State assistance	1,084,377	18,649
Federal assistance	-	380,413
Meal sales	7,486	7,212
Private assistance	3	438,772
Other local revenue	8,546	-
<b>Total Revenues</b>	<b>1,100,412</b>	<b>845,046</b>
<b>EXPENDITURES</b>		
Instructional services	469,213	389,057
Instructional support services	15,438	19,499
General administration	2,801	371
School administration	120,432	47,010
Central services	25,775	37,475
Operation and maintenance of plant	313,544	217,760
Food services	1,660	39,886
Community service operations	160	-
<b>Total Expenditures</b>	<b>949,023</b>	<b>751,058</b>
<b>REVENUES OVER EXPENDITURES</b>	<b>151,389</b>	<b>93,988</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Operating transfer to food service (from general fund)	(28,439)	28,439
<b>NET CHANGE IN FUND BALANCES</b>	<b>122,950</b>	<b>122,427</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 122,950</b>	<b>\$ 122,427</b>

See auditor's report and accompanying notes to financial statements



**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
State assistance	\$ 1,105,505	\$ 1,084,377	\$ (21,128)	18,249	\$ 18,649	\$ 400
Federal assistance	-	-	-	106,251	380,413	274,162
Meal sales	-	7,486	7,486	-	7,212	7,212
Private assistance	-	3	3	-	438,772	438,772
Other local revenue	-	8,546	8,546	437,233	-	(437,233)
<b>Total Revenues</b>	<b>1,105,505</b>	<b>1,100,412</b>	<b>(5,093)</b>	<b>561,733</b>	<b>845,046</b>	<b>283,313</b>
<b>EXPENDITURES</b>						
Instructional services	426,498	469,213	(42,715)	209,580	389,057	(179,477)
Instructional support services	30,335	15,438	14,897	11,702	19,499	(7,797)
General administration	46,303	2,801	43,502	-	371	(371)
School administration	77,943	120,432	(42,489)	75,361	47,010	28,351
Central services	140,742	25,775	114,967	-	37,475	(37,475)
Operation and maintenance of plant	372,685	313,544	59,141	210,180	217,760	(7,580)
Food services	-	1,660	(1,660)	40,524	39,886	638
Food services	-	160	(160)	2,000	-	2,000
<b>Total Expenditures</b>	<b>1,094,506</b>	<b>949,023</b>	<b>145,483</b>	<b>549,347</b>	<b>751,058</b>	<b>(201,711)</b>
<b>REVENUES OVER EXPENDITURES</b>	<b>10,999</b>	<b>151,389</b>	<b>140,390</b>	<b>12,386</b>	<b>93,988</b>	<b>81,602</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfer to food service (from general fund)	-	(28,439)	(28,439)	-	28,439	28,439
<b>NET CHANGE IN FUND BALANCES</b>	<b>10,999</b>	<b>122,950</b>	<b>111,951</b>	<b>12,386</b>	<b>122,427</b>	<b>110,041</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 10,999</b>	<b>\$ 122,950</b>	<b>\$ 111,951</b>	<b>\$ 12,386</b>	<b>\$ 122,427</b>	<b>\$ 110,041</b>

See auditor's report and accompanying notes to financial statements

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**A. *Summary of Significant Accounting Policies***

**1. Reporting Entity**

Quest Middle School of West Little Rock (the Charter School) is an open-enrollment public charter school established by Responsive Education Solutions, Inc., a nonprofit organization incorporated under the laws of the State of Texas. Responsive Education Solutions, Inc. (the sponsoring organization, hereinafter referred to as RES), a nonsectarian tax-exempt organization, was granted a charter by the Arkansas State Board of Education on November 14, 2013, to operate an open-enrollment charter school, with a maximum enrollment not to exceed two hundred and twenty (220) students starting with the 2014-2015 school year. This charter expires on June 30, 2019, and continuation and renewal of the charter are contingent upon acceptable student performance and compliance with certain accountability provisions set forth in Arkansas law pertaining to charter schools. The Charter School, which is operated by the nonprofit corporation in accordance with the Arkansas Department of Education Rules and Regulations Governing Charter Schools, offers educational opportunities to students in grade levels from sixth through eighth grade.

As discussed in Note G, the Charter School is a party to certain agreements and shares certain common board members with RES and Responsive Education School Services (RESS). RESS provides management functions in addition to RES. Also, the Charter School shares common board members with Premier High School Little Rock, Quest Middle School Pine Bluff and Northwest Arkansas Classical Academy Bentonville hereinafter referred to as the "Related Charter Schools."

These financial statements include only balances and transactions directly attributable to the Charter School. They do not include any balances or transactions attributable to RES, RESS, or the Related Charter Schools other than amounts due from or due to these organizations.

**2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

These financial statements are prepared in accordance with a regulatory basis of accounting prescribed by Arkansas Code Annotated §10-4-413(c), as set forth in the Arkansas Department of Education Rules Governing the Regulatory Basis of Accounting (RBA), which requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet - regulatory basis; a statement of revenues, expenditures and changes in fund balances - governmental funds - regulatory basis; a statement of revenues, expenditures and changes in fund balance - budget and actual - regulatory basis; notes to the financial statements; and a supplemental schedule of capital assets (unaudited) that includes land, buildings and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of accounting.

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2015**

**A. *Summary of Significant Accounting Policies (Continued)***

**2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

The RBA is an accounting method which is not in accordance with generally accepted accounting principles (GAAP), which requires that basic financial statements present government-wide financial statements and the following: management's discussion and analysis, accrual basis of accounting for government-wide financial statements, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, recording depreciation expense and specific note disclosures. The RBA does not require government-wide financial statements, nor does it incorporate the other information listed above.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function.

**3. Fund Accounting**

The Charter School's major funds are as follows:

- a. The General Fund** – The General Fund is used to account for and report all financial resources and operating expenditures, except those that are required to be reported in the special revenue fund (described below).
- b. The Special Revenue Fund** – The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes.

The Charter School had no other funds at or during the year ended June 30, 2015.

**4. Other Accounting Policies**

- a. Revenue Recognition** – Revenues are recognized when they become susceptible to accrual in accordance with the RBA.
- b. Interfund Receivables and Payables** – Receivables and payables resulting from short-term interfund loans are classified as "due to" or "due from" other funds. As of June 30, 2015, there were no "due to" or "due from" other funds.

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2015**

**A. *Summary of Significant Accounting Policies (Continued)***

**4. Fund Balances**

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned or unassigned. As of June 30, 2015, there were no non-spendable, committed, or assigned fund balances. Restricted fund balance has limitations imposed by creditors, grantors or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the entity's governing body through the approval of resolutions. Assigned fund balance is a limitation imposed by management or another designee of the entity's governing body. Unassigned fund balance consists of the net resources in excess of amounts classified non-spendable, restricted, committed or assigned.

When both restricted and unrestricted fund balances are available for use for a specified purpose, it is the Charter School's policy to use restricted fund balances first, then unassigned fund balances. Furthermore, when expenditures are incurred for purposes for which amounts in committed, assigned or unassigned fund balance classifications may be used, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts.

**5. Budgetary Data**

As required by State statutes, the Charter School prepares an annual budget which is filed with the Arkansas Department of Education (ADE). The budget is required to be approved by the Charter School's Board and submitted to the ADE no later than September 30 of each year. Budget amendments, if any, are not required to be submitted for approval to ADE. The Charter School's budget is prepared utilizing the regulatory basis of accounting described in Note A(2).

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

**6. Estimates**

The preparation of financial statements in conformity with the RBA requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related note disclosures. Accordingly, actual results could differ from those estimates.

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2015**

**B. Cash**

The Charter School's cash consists of demand deposits maintained at a financial institution. State statutes require that the Charter School's funds be deposited in banks located in the State of Arkansas and that all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits be collateralized. In the event of an institutional failure, any excess cash balances over FDIC insurance may not be recoverable. The Charter School received a waiver of the requirement for the situs of the bank from the Department of Education allowing it to maintain cash balances at an institution in Texas. The Charter School's bank has an agreement to hold collateral to insure bank deposit balances of all state and federal funds that exceed FDIC limits. At June 30, 2015, the bank balances of all Arkansas Charter Schools combined demand deposit account totaled \$857,955 all of which were fully secured.

**C. Accounts Receivable**

The accounts receivable balance of \$348,327 at June 30, 2015, was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Grants receivable	\$ -	\$ 348,327	\$ 348,327
Totals	\$ -	\$ 348,327	\$ 348,327

**D. Lease Commitments**

The Charter School conducts its administrative and school activities from a facility that is leased under a five-year non-cancelable operating lease expiring in 2019. Future minimum rental payments due under the lease are as follows:

Year	Amount
2016	\$ 492,000
2017	492,000
2018	492,000
2019	492,000
	<u>\$ 1,968,000</u>

For 2015, rental expense amounted to \$438,344.

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2015**

***E. Pension Plan Obligations***

**Plan Description** - The Charter School participates in the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public and charter school employees, except certain non-teachers hired prior to July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201, or by calling 1-800-666-287.

ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%.

The Charter School's contributions to ATRS for the year ended June 30, 2015, were approximately \$76,000. These contributions were equal to the required contributions for the year.

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the Charter School's proportionate share of the collective net pension liability. The Charter School did not have a proportionate share of the collective net pension liability as of June 30, 2014 (actuarial valuation date and measurement date) due to it not being in operation until July 1, 2014.

***F. On Behalf Payments***

During the year ended June 30, 2015, health insurance premiums of approximately \$22,932 were paid by the Arkansas Department of Education to the Arkansas Employee Benefits Division on behalf of Charter School employees. This amount is not included in revenues or expenditures in the Charter School's financial statements.

***G. Academic and Business Services Agreement***

RES and RESS provide personnel and certain services to the Charter School. Such services include implementing educational programs, personnel management, facility and property management, business administration, budgeting and financial reporting, financial management, maintenance of records, pupil recruitment and admissions, family services, student discipline, annual reports, teacher training and professional development, charter renewal, public and governmental relations and any other services which may be agreed to in writing.

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2015**

**G. Academic and Business Services Agreement (continued)**

These services are provided pursuant to management agreements and related amendments (the Agreements) executed between RES and RESS and the Charter School. The Agreements provide that RES and RESS are entitled to receive management fees equal to a percentage of the Charter School's state foundation funding, to the extent that such fees do not cause the Charter School to incur a loss in the General fund. In addition, RES and RESS will be reimbursed for all expenses incurred on behalf of the Charter School. For the year ended June 30, 2015, management fees paid to RES and RESS by the Charter School were \$4,760 and \$19,041, respectively.

**H. Risk Management**

The Charter School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and students; and natural disasters. The Charter School has purchased commercial insurance to address these risks.

**I. Income Taxes**

The sponsoring organization, and by extension the Charter School, is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Charter School believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

The sponsoring organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2013, 2014, and 2015 are subject to examination by the IRS.

**J. Date of Management's Review**

Subsequent events were evaluated through March 15, 2016, which is the date the financial statements were available to be issued.

**K. Related Party Transactions and Balances**

The related Charter Schools, described in note A(1), share employees and other expenses. These transactions create payables/receivables between the related Charter Schools. See below for a breakdown of the balances:

<u>Party</u>	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
<b>Receivables:</b>			
Related Charter Schools	\$ -	\$ 3,021	\$ 3,021
<b>Payables:</b>			
Related Charter Schools	\$ -	\$ -	\$ -

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2015**

**L.     *Accounts Payable***

As of June 30, 2015, the Charter School's general and special revenue fund accounts payable balances totaled \$1,875 and \$3,375, respectively, and consisted entirely of vendor payables.

**M.     *Accrued Payroll and Related Expenditures***

Charter School teachers are employed from August 2014 through June 2015, which is the academic school year. Teachers may elect to be paid over a 12 month period. As of June 30, 2015, the Charter School has recorded a liability for the unpaid salaries in the general and special revenue fund in the amount of \$95,294 and \$1,985, respectively, for those being paid on a 12 month period.

**N.     *Concentrations***

The Charter School is economically dependent on funding received through state awards. During the year ended June 30, 2015, approximately 57% of total revenues were from state awards.



## **Supplementary Information**

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK**  
**SCHEDULE OF CAPITAL ASSETS (UNAUDITED)**  
**June 30, 2015**

**DEPRECIABLE CAPITAL ASSETS**

Equipment	\$ 80,920
Accumulated Depreciation	<u>(10,578)</u>

**TOTAL DEPRECIABLE CAPITAL ASSETS, NET**

**\$ 70,342**

## **Internal Control and Compliance Section**

***INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees  
Quest Middle School of West Little Rock

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund of Quest Middle School of West Little Rock (the "Charter School") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's regulatory basis financial statements, and have issued our report thereon dated March 15, 2016.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Charter School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Charter 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*.

### **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 Charter School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Thomas & Thomas LLP*

Certified Public Accountants

Texarkana, Texas  
March 15, 2016

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED June 30, 2015**

**SECTION I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued:	GAAP Basis - Adverse Regulatory Basis - Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to the financial statements noted?	None Reported

## **Other Required Reports**

***INDEPENDENT ACCOUNTANT'S REPORT ON  
COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS***

To the Board of Trustees  
Quest Middle School of West Little Rock

We have examined Quest Middle School of West Little Rock's (the "Charter School") compliance with the requirements of Arkansas Code Annotated §6-1-101 and the applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2015. Management is responsible for the Charter School's compliance with those requirements. Our responsibility is to express an opinion on the Charter School's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Charter School's compliance with specified requirements.

In our opinion, the Charter School substantially complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2015.

This report is intended solely for the information and use of the Board of Trustees, management, and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Thomas & Thomas LLP*

Certified Public Accountants

Texarkana, Texas  
March 15, 2016



# QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK

## SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION TO BE ADDRESSED IN INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE

YEAR ENDED JUNE 30, 2015

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding & Purchasing Commodities	6-21-301 – 6-21-305
Ethical Guidelines and Prohibitions	6-13-628; 6-24-101 et seq.
Collateralization & Investment of Funds	6-20-222; 19-1-504
Deposit of Funds	19-8-104; 19-8-106
District Finances	6-20-402
• Bonded & Non-bonded Debt, District School Bonds	6-20-1201-6-20-1208; 6-20-1210
• Petty Cash	6-20-409
• Changes in Pullback (no deferrals – declining accrual percentages)	6-20-401
• Investment of Funds	19-1-504
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-617 – 6-13-620; 6-24-101 et seq.
• District Treasurer	6-13-701
○ Warrants/checks	6-17-918; 6-17-919; 6-20-403
Management Letter for Audit	14-75-101 – 14-75-104
Nonrecurring Salary Payments	6-20-412
Revolving Loan Fund	6-19-114; 6-20-801 et seq.
Salary Laws – Classified	6-17-2201 et seq.; 6-17-2301 et seq.
Salary increases 5% or more (certified & classified)	6-13-635
School Elections	6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118
Teachers and Employees	
• Personnel Policies	6-17-201 et seq., 6-17-2301
• Employment and Assignment	6-17-301 et seq.
• Teacher's License Requirement	6-17-401 et seq.
• Contracts	6-17-801 et seq.
• Certification Requirements	6-17-309; 6-17-401
• Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
• Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
Teacher Salaries and Foundation Funding Aid	6-17-803; 6-17-907; 6-17-908; 6-17-911 – 6-17-913; 6-17-918; 6-17-919
Trust Funds (Education Excellence)	6-5-307
Use of Contractors, Improvement Contracts	22-9-201 – 22-9-205
Use of DM&O Millage	26-80-110
On Behalf Payments	The amount of funds paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of District's employees

The Annual Financial Report shall be presented in conformity with the format and guidelines as prescribed by the appropriate professional organizations. The financial statement presentation shall be in compliance with Arkansas Codes §§ 6-1-101 and 10-4-413.

The financial statement presentation must also be in accordance with GASB 68. (Note for Regulatory Basis Presentation)