

**QUEST MIDDLE SCHOOL OF
WEST LITTLE ROCK**

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2019

(WITH INDEPENDENT AUDITOR'S REPORTS THEREON)

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
ANNUAL FINANCIAL REPORT
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YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Quest Middle School of West Little Rock
Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the fiduciary fund information of Quest Middle School of West Little Rock (the Charter School) as of and for the year ended June 30, 2019, 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 Arkansas Code Annotated §10-4-413(c) as provided by Act 867 of 2019, as described in Note 1 to the financial statements, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and 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 Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

The Board of Trustees
Quest Middle School of West Little Rock

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

As described in Note 1, the financial statements are prepared by the Charter School on the basis of the financial reporting provisions of Arkansas Code Annotated §10-4-413(c) as provided by Act 867 of 2019, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet 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 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Charter School, as of June 30, 2019, or the changes in its financial position or budgetary comparison for the major governmental funds 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 regulatory basis financial position of each major governmental fund and the fiduciary fund information of the Charter School as of June 30, 2019, and the respective regulatory basis changes in financial position 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 Arkansas Code Annotated §10-4-413(c) as provided by Act 867 of 2019 described in Note 1.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the Charter School did not renew the charter for years after June 30, 2019, and was merged into Northwest Arkansas Classical Academy as of July 1, 2019. Our opinion is not modified with respect to that matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the regulatory basis financial statements as a whole. The Schedule of Capital Assets (Unaudited), which is management’s responsibility, is presented for the purpose of additional analysis and in compliance with state statutes. Such information 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.

The Board of Trustees
Quest Middle School of West Little Rock

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2020, 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, PLLC

Certified Public Accountants

Texarkana, Texas
March 24, 2020

REGULATORY BASIS FINANCIAL STATEMENTS

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
BALANCE SHEETS - REGULATORY BASIS
JUNE 30, 2019

	Governmental Funds		
	Major		Fiduciary Funds
	General	Special Revenue	
ASSETS			
Cash	\$ 182,620	\$ -	\$ 23,141
Accounts receivable	-	25,923	-
Due from Special Revenue Fund	19,759	-	-
Deposit	40,000	-	-
TOTAL ASSETS	<u>242,379</u>	<u>25,923</u>	<u>23,141</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to General Fund	-	19,759	-
Due to student groups	-	-	23,141
Accrued payroll and related expenditures	42,576	6,164	-
Total Liabilities	<u>42,576</u>	<u>25,923</u>	<u>23,141</u>
Fund Balances			
Unassigned	199,803	-	-
Total Fund Balances	<u>199,803</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 242,379</u>	<u>\$ 25,923</u>	<u>\$ 23,141</u>

See 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, 2019

	Governmental Funds	
	Major	
	General	Special Revenue
REVENUES		
State assistance	\$ 1,174,097	\$ 110,015
Federal assistance	-	124,643
Meal sales	-	7,172
Private assistance	-	187,233
Other local revenue	27,087	7,500
Total Revenues	1,201,184	436,563
EXPENDITURES		
Instructional services	643,381	76,423
Instructional support services	52,907	61,564
General administration	76,224	10,213
School administration	164,572	-
Central services	3,758	-
Operation and maintenance of plant	309,924	265,528
Transportation	2,133	-
Food services	-	66,133
Total Expenditures	1,252,899	479,861
DEFICIT OF REVENUES UNDER EXPENDITURES	(51,715)	(43,298)
OTHER FINANCING SOURCES (USES)		
Operating transfer between funds	(32,034)	32,034
NET CHANGE IN FUND BALANCES	(83,749)	(11,264)
FUND BALANCES - BEGINNING OF YEAR	283,552	11,264
FUND BALANCES - END OF YEAR	\$ 199,803	\$ -

See 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, 2019

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State assistance	\$ 1,174,097	\$ 1,174,097	\$ -	\$ 114,947	\$ 110,015	\$ (4,932)
Federal assistance	-	-	-	111,550	124,643	13,093
Meal sales	-	-	-	22,347	7,172	(15,175)
Private assistance	-	-	-	187,233	187,233	-
Other local revenue	30,426	27,087	(3,339)	-	7,500	7,500
Total Revenues	<u>1,204,523</u>	<u>1,201,184</u>	<u>(3,339)</u>	<u>436,077</u>	<u>436,563</u>	<u>486</u>
EXPENDITURES						
Instructional services	666,933	643,381	23,552	75,774	76,423	(649)
Instructional support services	58,583	52,907	5,676	49,308	61,564	(12,256)
General administration	76,676	76,224	452	10,213	10,213	-
School administration	165,107	164,572	535	-	-	-
Central services	5,150	3,758	1,392	-	-	-
Operation and maintenance of plant	310,000	309,924	76	270,460	265,528	4,932
Transportation	-	2,133	(2,133)	-	-	-
Food services	-	-	-	64,359	66,133	(1,774)
Total Expenditures	<u>1,282,449</u>	<u>1,252,899</u>	<u>29,550</u>	<u>470,114</u>	<u>479,861</u>	<u>(9,747)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(77,926)	(51,715)	26,211	(34,037)	(43,298)	(9,261)
OTHER FINANCING SOURCES (USES)						
Operating transfer between funds	(26,012)	(32,034)	(6,022)	26,012	32,034	6,022
NET CHANGE IN FUND BALANCES	<u>(103,938)</u>	<u>(83,749)</u>	<u>20,189</u>	<u>(8,025)</u>	<u>(11,264)</u>	<u>(3,239)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>283,552</u>	<u>283,552</u>	<u>-</u>	<u>11,264</u>	<u>11,264</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 179,614</u>	<u>\$ 199,803</u>	<u>\$ 20,189</u>	<u>\$ 3,239</u>	<u>\$ -</u>	<u>\$ (3,239)</u>

See accompanying notes to financial statements.

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (the State Board) on November 14, 2013, to operate an open-enrollment charter school through June 30, 2019. The Charter School, which is operated by RES in accordance with the ADE Rules and Regulations Governing Charter Schools, offers educational opportunities to students in grade levels from sixth grade through the twelfth grade with an enrollment cap of 490. As discussed in Note 14, the charter for the school was not renewed for the 2019-2020 school year. Instead, the school was incorporated into the Northwest Classical Academy charter school, which is under the same sponsoring organization as the Charter School.

As discussed in Note 9, the Charter School is a party to certain agreements and shares certain common board members with RES and Blue Learning (formerly known as Responsive Education School Services). Blue Learning provides management functions in addition to RES. Also, the Charter School shares common board members with Premier High School Little Rock 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, Blue Learning, or the Related Charter Schools other than amounts due from or due to these organizations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

These financial statements are prepared in accordance with a regulatory basis of accounting. This basis of accounting is 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, at a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet - regulatory basis; a statement of revenues, expenditures, and changes in fund balances - regulatory basis; a comparison of the final adopted budget to the actual expenditures for the general fund of the entity and the special revenue fund of the entity; notes to the financial statements; and a supplemental schedule of capital assets that includes land, buildings and equipment. The law further stipulates that the State Board shall promulgate the rules necessary to administer the regulatory basis of accounting.

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Fund Accounting

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

Major governmental funds (per the RBA) are defined as General and Special Revenue.

- 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 or fiduciary fund (described below).
- b. **The Special Revenue Fund** – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes. The Special Revenue Fund includes federal and state revenues and related expenditures restricted for educational programs or projects.
- c. **The Fiduciary Fund** – The Fiduciary Fund is used to report balances held by the Charter School on behalf of various student clubs, groups, and organizations. These resources are held by the Charter School acting as a custodial agent for others; therefore, no fund balances are reflected.

The Charter School had no other funds during the year ended June 30, 2019.

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 advances are classified as due to or due from other funds. As of June 30, 2019, the General Fund recognized a receivable from the Special Revenue fund for \$19,759.
- c. **Capital Assets** – Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at estimated fair value when received.

Fund Balances

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned or unassigned. Non-spendable fund balance represents amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Charter School's governing body. Assigned fund balance represents amounts that are constrained by the Charter School's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance consists of the net resources in excess of amounts classified non-spendable, restricted, committed or assigned. As of June 30, 2019, there were no non-spendable, committed, assigned, or restricted fund balances.

The Charter School's highest level of decision-making authority is its Board of Trustees. The establishment of amounts classified as committed fund balances and subsequent modifications to such balances are the result of formal actions taken by the Charter School's Board of Trustees through a resolution or adoption of board policy.

The Charter School's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balance of these sources of funds are combined to derive the Charter School's total fund balance by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted funds. The Charter School's policy is to use restricted fund balances first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Data

The Charter School is required by state statute to prepare an annual budget. 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 RBA. 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.

Estimates

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

NOTE 2 – 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 ADE allowing it to maintain cash balances at a financial 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. The Charter School's cash is maintained in a demand deposit account that is shared with Premier High School Little Rock and Northwest Arkansas Classical Academy of Bentonville. At June 30, 2019, the bank balance of the combined demand deposit account totaled \$1,625,829, which was fully collateralized.

NOTE 3 – ACCOUNTS RECEIVABLE

The accounts receivable balance of \$25,923 at June 30, 2019, was comprised of grant balances receivable in the Special Revenue fund.

NOTE 4 – DUE TO STUDENT GROUPS

The balance of amounts due to student groups represent collections from student projects and fundraising activities for which the Charter School acts purely as custodian.

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 – ACCRUED PAYROLL AND RELATED EXPENDITURES

Charter School teachers are employed from August 2018 through June 2019, which is the academic school year. Teachers may elect to be paid over a 12-month period. As of June 30, 2019, the Charter School has recorded a liability for the unpaid salaries in the general and special revenue funds in the amounts of \$42,576 and \$6,164, respectively, for those employees paid on a 12 month period.

NOTE 6 – 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. During August 2018, the lease was renewed with a new term beginning September 1, 2019, and ending August 31, 2021. Future minimum rental payments due under the lease consist of the following:

<u>Year</u>	<u>Amount</u>
2020	\$ 443,400
2021	419,400
2022	99,400
	<u>\$ 962,200</u>

Rental expense amounted to \$527,400 for the year ended June 30, 2019.

NOTE 7 - RETIREMENT PLAN

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-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by state law and can be amended only by the Arkansas General Assembly. The ATRS issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201, or by calling 1-800-666-287.

Funding Policy

ATRS has contributory and non-contributory plans. Contributory members are required by state law to contribute 6% of their salaries. Each participating employer is required by state law to contribute at a rate determined by the ATRS Board of Trustees, based on the annual actuarial valuation. The employer rate at June 30, 2019, is 14% of covered salaries. The Charter School's contributions to ATRS for the year ended June 30, 2019, were approximately \$101,000, which were equal to the required contributions.

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Net Pension Liability

The ADE has stipulated that the requirements of Governmental Accounting Standards Board Statement No. 68 under RBA would be limited to disclosure of the Charter School's proportionate share of the collective net pension liability. The Charter School's proportionate share of the collective net pension liability as of June 30, 2019 (the most recent actuarial valuation date and measurement date) was \$858,268.

NOTE 8 – ON BEHALF PAYMENTS

During the year ended June 30, 2019, health insurance premiums of \$22,162 were paid by the ADE on behalf of Charter School employees. This amount is not included in revenues or expenditures in the Charter School's financial statements.

NOTE 9 – ACADEMIC AND BUSINESS SERVICES AGREEMENT

RES and Blue Learning provide the Charter School with personnel and certain services including 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.

These services are provided pursuant to management agreements and related amendments (the Agreements) executed between RES and Blue Learning and the Charter School. The Agreements provide that RES and Blue Learning 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 Blue Learning will be reimbursed for all expenses incurred on behalf of the Charter School. During the year ended June 30, 2019, there were no management fees paid to RES or Blue Learning by the Charter School.

NOTE 10 – RELATED PARTY TRANSACTIONS AND BALANCES

The Related Charter Schools share employees and other expenses. These transactions create payables/receivables between the Related Charter Schools. There were no related party payable or receivables between the Related Charter Schools as of June 30, 2019. The Charter School participates in academic and business service agreements with RES and Blue Learning, as described in Note 9.

NOTE 11 – 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.

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 – CONCENTRATIONS

The Charter School is economically dependent on funding received through state awards. During the year ended June 30, 2019, approximately 78% of total revenues were from state awards.

NOTE 13 – SUBSEQUENT EVENTS

The Charter School has evaluated events through March 24, 2020, the date the financial statements were available to be issued, and has determined that no additional disclosures are necessary.

NOTE 14 – SCHOOL MERGER

Management of the Charter School elected not to renew the school's charter when it expired on June 30, 2019. In October 2018, the Arkansas Department of Education approved merging the existing Charter School into the charter for Northwest Arkansas Classical Academy, which has a kindergarten through twelfth grade school located in Bentonville, AR. The existing Quest Academy will remain in West Little Rock and will be transformed to a classical academy similar to that in Bentonville beginning in the 2021-2022 school year. All restricted funds were expended prior to June 30, 2019. Unspent unrestricted funds were transferred to Northwest Arkansas Classical Academy subsequent to June 30, 2019.

SUPPLEMENTARY INFORMATION

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
SCHEDULE OF CAPITAL ASSETS (UNAUDITED)
JUNE 30, 2019

DEPRECIABLE CAPITAL ASSETS

Equipment and Leasehold Improvements	\$ 135,988
Accumulated Depreciation	<u>(79,866)</u>

TOTAL DEPRECIABLE CAPITAL ASSETS, NET

<u>\$ 56,122</u>

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**

The Board of Trustees
Quest Middle School of West Little Rock
Little Rock, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund and the fiduciary fund information of Quest Middle School of West Little Rock (the "Charter School") as of and for the year ended June 30, 2019, 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 24, 2020. We issued an adverse opinion because the Charter school prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). The effects on the financial statements of the variances between the regulatory basis of accounting and U.S. GAAP, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the fiduciary fund information of the Charter School as of June 30, 2019, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control over Financial Reporting

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

The Board of Trustees
Quest Middle School of West Little Rock

Internal Control over Financial Reporting (continued)

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 regulatory basis 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 were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter School's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of 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, PLLC

Certified Public Accountants

Texarkana, Texas
March 24, 2020

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

SECTION I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s opinion issued:	U.S. 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

**QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2019**

**Prior year findings related to the financial statements which were required to be reported in accordance with
Government Auditing Standards:**

There were no findings or questioned costs in the June 30, 2018, audit relating to *Government Auditing Standards*.

OTHER REQUIRED REPORTS

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

The Board of Trustees
Quest Middle School of West Little Rock
Little Rock, Arkansas

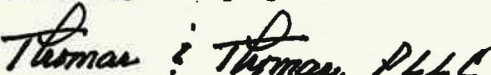
We have examined management of Quest Middle School of West Little Rock's (the "Charter School") assertion that the Charter School complied with the requirements of Arkansas Code Annotated §6-1-101 and the applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2019. The Charter School's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion about the Charter School's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards required that we plan and perform the examination to obtain reasonable assurance about whether management's assertion about compliance with the specified requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide 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, management's assertion that the Charter School complied with the aforementioned requirements is fairly stated, in all material respects.

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 suitable for any other purpose.


Certified Public Accountants

Texarkana, Texas
March 24, 2020

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
TO BE ADDRESSED IN INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE
YEAR ENDED JUNE 30, 2019

<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
o 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.
• Minimum Wage Act	11-4-213, 11-4-218, 11-4-403, 11-4-405
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
Regulatory Basis of Accounting	10-4-413(c) (Act 867 of 2019)
Real Estate and Personal Property Tax Appeals	26-35-802 (Act 657 of 2019)
Arkansas Procurement Law	19-11-201 et. seq.
Fiscal Accountability	6-20-1901, et. seq. (Act 929 of 2019)

QUEST MIDDLE SCHOOL OF WEST LITTLE ROCK
SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
TO BE ADDRESSED IN INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE
YEAR ENDED JUNE 30, 2019
(CONTINUED)

DESCRIPTION

STATUTES

Limitation of Fund Balances

6-20-2210

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(c).

The financial statement presentation must also be in accordance with GASB 68, 72, and 87.