

**ISTHMUS MONTESSORI ACADEMY, INC.**

FINANCIAL STATEMENTS

July 31, 2019

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Isthmus Montessori Academy, Inc.  
Madison, Wisconsin

We have audited the accompanying financial statements of Isthmus Montessori Academy, Inc., which comprise the consolidated statement of financial position as of July 31, 2019, and the related consolidated statements of activities, functional expenses, 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 audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to the financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and the requirements of *Wisconsin Department of Public Instruction*. 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 Isthmus Montessori Academy, Inc. as of July 31, 2019, 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**

### *Adoption of New Accounting Pronouncement*

As discussed in Note 1 to the financial statements, Isthmus Montessori Academy, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended July 31, 2019. Our opinion is not modified with respect to this matter.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards and schedule of revenue and expenses, as required by *Wisconsin Department of Public Instruction*, are presented for purposes of additional analysis and are 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 February 20, 2020, on our consideration of Isthmus Montessori Academy, Inc.'s internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Isthmus Montessori Academy, Inc.'s 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 Isthmus Montessori Academy, Inc.'s internal control over financial reporting and compliance.

*Wegner CPAs LLP*

Wegner CPAs, LLP  
Madison, Wisconsin  
February 20, 2020

**ISTHMUS MONTESSORI ACADEMY, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
July 31, 2019

<b>ASSETS</b>	
CURRENT ASSETS	
Cash	\$ 99,866
Accounts receivable, net	19,848
Prepaid expenses	<u>19,586</u>
Total current assets	139,300
Property and equipment, net	<u>927,868</u>
<b>Total assets</b>	<u><u>\$ 1,067,168</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
CURRENT LIABILITIES	
Accounts payable	\$ 69,994
Accrued payroll	15,898
Deferred revenue	6,000
Current portion of notes payable	114,317
Other liabilities	<u>25,942</u>
Total current liabilities	232,151
NONCURRENT LIABILITIES	
Notes payable net of current portion	<u>752,806</u>
Total liabilities	984,957
<b>NET ASSETS</b>	
Without donor restrictions	<u>82,211</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 1,067,168</u></u>

See accompanying notes.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended July 31, 2019

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**NET ASSETS WITHOUT DONOR RESTRICTIONS**

REVENUES

Tuition, net	\$ 747,110
Grants	1,893,828
Contributions	69,336
Miscellaneous	14,848
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Total revenues without donor restrictions 2,725,122

EXPENSES

Private School	887,892
Public School	1,524,196
Management and general	389,136
Fundraising	42,372
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Total expenses 

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2,843,596

**Change in net assets** (118,474)

Net assets at beginning of year 

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200,685

**Net assets at end of year** 

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\$ 82,211

See accompanying notes.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended July 31, 2019

	Private School	Public School	Management and General	Fundraising	Total
Personnel	\$ 481,057	\$ 831,907	\$ 183,204	\$ 30,534	\$ 1,526,702
Occupancy	137,215	255,824	54,986	8,803	456,828
Loss on disposal of assets	190,009	-	-	-	190,009
Supplies and materials	3,517	183,945	17	-	187,479
Administrative	4,719	70,003	19,288	-	94,010
Legal and professional	-	-	73,510	-	73,510
Depreciation	20,551	38,363	8,221	1,370	68,505
Interest	21,579	31,305	-	-	52,884
Training and development	11,080	38,668	-	-	49,748
Bad debts	-	-	44,571	-	44,571
Direct student costs	828	38,051	-	775	39,654
Information technology	8,063	15,050	3,225	538	26,876
Insurance	5,286	9,868	2,114	352	17,620
Kitchen and food service	3,988	11,212	-	-	15,200
Total expenses	<u>\$ 887,892</u>	<u>\$ 1,524,196</u>	<u>\$ 389,136</u>	<u>\$ 42,372</u>	<u>\$ 2,843,596</u>

See accompanying notes.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
Year Ended July 31, 2019

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ (118,474)
Adjustments to reconcile change in net assets to net change in cash	
Increase in allowance for doubtful accounts	9,776
Bad debts	44,571
Depreciation	68,505
Loss on disposal of assets	190,009
Increase in assets	
Accounts receivable	(3,092)
Prepaid expenses	(297)
Increase (decrease) in liabilities	
Accounts payable	27,671
Accrued payroll	7,066
Deferred revenue	(16,500)
Other liabilities	25,942
	<hr/>
Net cash flows from operating activities	235,177
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of property and equipment	(690,760)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds of notes payable	800,000
Payments on notes payable	(377,087)
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Net cash flows from financing activities	422,913
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<b>Net change in cash</b>	(32,670)
Cash at beginning of year	132,536
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<b>Cash at end of year</b>	<b>\$ 99,866</b>
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<b>SUPPLEMENTAL DISCLOSURE</b>	
Cash paid for interest	\$ 50,639

See accompanying notes.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2019

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Isthmus Montessori Academy, Inc. (IMA) provides an aid to life through a holistic AMI Montessori Education: helping children achieve their greatest success, develop independence, and live with genuine kindness to others and the world.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Consolidation**

The financial statements include the accounts of Isthmus Montessori Academy, Inc. and its wholly owned subsidiary, Isthmus Montessori Academy Public Charter School, Inc. All material intra-entity transactions have been eliminated.

**Accounts Receivable**

Accounts receivable, including tuition and other receivables, are stated net of the allowance for doubtful accounts. IMA does not charge finance charges on past due receivables. The allowance for doubtful accounts is maintained at a level that is management's best estimate of probable uncollectible tuition and bad debts incurred as of the consolidated statement of financial position date. Management's determination of the allowance is based on an evaluation of the receivables, past collection experience, current economic conditions, composition of the receivables, and other relevant factors. The allowance is increased by provisions for uncollectible tuition and other receivables charged against income. The allowance for doubtful accounts at July 31, 2019 was \$9,776.

**Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation. Amounts of over \$5,000 are capitalized and depreciated using the straight-line method over the assets' estimated useful lives. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate a termination in use, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of equipment are recorded as unrestricted support.

**Contributions**

Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**Donated Services**

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by IMA.

**Income Tax Status**

IMA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2019

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Expense Allocation**

The financial statements report certain categories of expense that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, occupancy, depreciation, information technology, and insurance, which are allocated on the basis of time and effort.

The following program services and supporting activities are included in the accompanying financial statements:

*Private School* - Preschool and daycare services for children age twelve months to three years old.

*Public School* - Charter school instruction for children kindergarten through tenth grade.

*Management and General* - Management and general activities involve the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of IMA's program strategy; secure proper administrative functioning of the board of directors; maintain competent legal services for the program administration of IMA; and manage the financial and budgetary responsibilities of IMA.

*Fundraising* - Fundraising activities include soliciting contributions from individuals, foundations, and others.

**Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

**Adoption of New Accounting Pronouncement**

IMA adopted the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended July 31, 2019. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

**Date of Management's Review**

Management has evaluated subsequent events through February 20, 2020, the date which the financial statements were available to be issued.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2019

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NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment at July 31, 2019 consisted of the following:

Leasehold improvements	\$ 918,599
Furniture and equipment	<u>96,409</u>
Property and equipment	1,015,008
Less accumulated depreciation	<u>87,140</u>
Property and equipment, net	<u><u>\$ 927,868</u></u>

NOTE 3 – DONATED SERVICES

During the year ended July 31, 2019, IMA received donated legal services in the amount of \$48,915 which were classified as management and general expenses in the consolidated statements of activities and functional expenses.

NOTE 4 – NOTES PAYABLE

Notes payable at July 31, 2019 consisted of the following:

6% note payable to Monona Bank, payable in monthly installments of \$11,720 including principal and interest. Secured by substantially all assets of IMA as well as two real properties owned by IMA directors. Performance guaranteed by Isthmus Montessori Academy Public, LLC, a company owned by multiple directors of IMA. Matures in June 2026.	\$ 792,280
5% unsecured note payable to a member of the board of directors, payable in monthly installments of \$1,726, including principal and interest. Matures in June 2023.	73,525
Interest free note payable to a member of the board of directors. The note is due on demand.	<u>1,318</u>
Notes payable	867,123
Less: current portion of notes payable	<u>114,317</u>
Notes payable less current portion	<u><u>\$ 752,806</u></u>

**ISTHMUS MONTESSORI ACADEMY, INC.**  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2019

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NOTE 4 – NOTES PAYABLE (continued)

Future minimum principal payments on notes payable for years ending July 31 are as follows:

2020	\$ 114,317
2021	119,908
2022	127,111
2023	133,023
2024	121,517
Thereafter	<u>251,247</u>
Notes payable	<u>\$ 867,123</u>

NOTE 5 – LEASE ARRANGEMENT

IMA leases its operational facility under an operating lease that expires in August 2028. Current monthly lease payments are \$19,675. Rent expense for the year ended July 31, 2019 was \$384,232.

Future minimum lease payments for the subsequent five years ending July 31 are as follows:

2020	\$ 371,338
2021	376,047
2022	380,851
2023	385,751
2024	390,758

The lessor is has a familial relationship to a member of the board of directors of IMA.

NOTE 6 – LIQUIDITY AND AVAILABILITY

The following table reflects IMA's financial assets as of July 31, 2019, reduced by the amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position date because of donor-imposed restrictions.

Cash	\$ 99,866
Accounts receivable, net	<u>19,848</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 119,714</u>

As part of IMA's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
NOTES TO FINANCIAL STATEMENTS  
July 31, 2019

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NOTE 7 – SIGNIFICANT CONCENTRATIONS

IMA receives approximately 71% of its revenue from Wisconsin Department of Public Instruction.

NOTE 8 – PRIOR PERIOD ADJUSTMENTS

Certain errors resulting in the misstatements of previously reported accounts receivable, property and equipment, and deferred revenue were discovered during the current year. Accordingly, an adjustment was made to increase cash by \$5,673; decrease property and equipment by \$27,535; and increase deferred revenue by \$22,500 as of July 31, 2018. A corresponding entry was made to decrease previously reported net assets by \$44,362.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
Year Ended July 31, 2019

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Identifying Number	Accrued or (Deferred) Revenue at 8/1/18	Receipts	Expenditures	Accrued or (Deferred) Revenue at 7/31/19
<b>EXCLUDED FROM SEFSA:</b>						
<b>U.S. Department of Education</b>						
Pass-through Wisconsin Department of Public Instruction						
Wisconsin Charter Schools Program	84.282	2019-138141-WCSP-360	-	97,152.62	97,152.62	-

See accompanying notes to the Schedule of Federal and State Awards.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
Year Ended July 31, 2019

State Grantor/ Program Title	State Identifying Number	State Pass Through Identifying Number	Accrued or (Deferred) Revenue at 8/1/18	Receipts	Expenditures	Accrued or (Deferred) Revenue at 7/31/19
<b>Wisconsin Department of Public Instruction</b>						
Charter Schools State Aid - 2x	255.289	138141	\$ -	\$ 1,762,586	\$ 1,762,586	\$ -
Assessments of Reading Readiness Public	255.956	138141	-	488	488	-
<b>Total Wisconsin Department of Public Instruction</b>			-	1,763,074	1,763,074	-
<b>Wisconsin Department of Justice</b>						
School Safety Initiative 2018	445.206		-	20,484	20,484	-
<b>Wisconsin Department of Workforce Development</b>						
Wisconsin Fast Forward	445.109		-	13,118	13,118	-
<b>Total State Programs</b>			\$ -	\$ 1,796,676	\$ 1,796,676	\$ -

See accompanying notes to the Schedule of Federal and State Awards.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
NOTES TO SCHEDULE OF FEDERAL AND STATE AWARDS  
July 31, 2019

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NOTE 1—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state award activity of IMA under programs of the federal and state governments for the year ended July 31, 2019. The information in this Schedule is presented in accordance with the requirements of *Wisconsin Department of Public Instruction*. Because the Schedule presents only a selected portion of the operations of IMA, it is not intended to and does not present the financial position or changes in net position of IMA.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting.

NOTE 3—INDIRECT COST RATE

IMA has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
**SCHEDULE OF REVENUES AND EXPENSES**  
Year Ended July 31, 2019

	<u>Total</u>	<u>Private School</u>	<u>Public School</u>	<u>Public School Per Pupil</u>
<b>REVENUES</b>				
State Aid	\$ 1,762,586	\$ -	\$ 1,762,586	\$ 8,123
Federal Funds	97,153	-	97,153	448
Other grants	34,090	34,090	-	-
Tuition	747,110	747,110	-	-
Other Revenue	84,184	76,611	7,573	35
<b>Total Revenue</b>	<b>\$ 2,725,122</b>	<b>\$ 857,811</b>	<b>\$ 1,867,311</b>	<b>\$ 8,605</b>
<b>EXPENSES</b>				
Instruction	\$ 1,818,783	\$ 666,384	\$ 1,152,399	\$ 5,311
Instructional Support	473,975	173,660	300,315	1,384
Facilities	456,828	159,485	297,343	1,370
Administration	94,010	15,743	78,267	361
Other	-	-	-	-
<b>Total Expenditures</b>	<b>\$ 2,843,596</b>	<b>\$ 1,015,272</b>	<b>\$ 1,828,324</b>	<b>\$ 8,425</b>
<b>FEDERAL REVENUE</b>				
Other federal funds				
Charter Schools	97,153	-	97,153	448
	<b>\$ 97,153</b>	<b>\$ -</b>	<b>\$ 97,153</b>	<b>\$ 448</b>
<b>Public School net assets</b>				
	July 1, 2018	June 30, 2019	Difference	Total net assets
Total net assets	\$ -	\$ 38,987	\$ 38,987	<u>\$ 38,987</u>

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  
Isthmus Montessori Academy, Inc.  
Madison, Wisconsin

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 Isthmus Montessori Academy, Inc. (IMA), which comprise the consolidated statement of financial position as of July 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2020.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered IMA'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 IMA's internal control. Accordingly, we do not express an opinion on the effectiveness of IMA'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 through 2019-007, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether IMA'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 did not disclose any instances of noncompliance that is required to be reported under *Government Auditing Standards*.

### **IMA Schools, Inc.'s Response to Finding**

Isthmus Montessori Academy, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. IMA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

*Wegner CPAs LLP*

Wegner CPAs, LLP  
Madison, Wisconsin  
February 20, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR STATE  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE  
WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION

To the Board of Directors  
Isthmus Montessori Academy, Inc.  
Madison, Wisconsin

### **Report on Compliance for The Major State Program**

We have audited Isthmus Montessori Academy, Inc.'s (IMA) compliance with the types of compliance requirements described in the *Wisconsin Public School District Audit Manual*, issued by the Wisconsin Department of Public Instruction, that are required to be conducted on IMA's major state program with limited required procedures for the year ended July 31, 2019. IMA's major state program that has limited required procedures is identified in the accompanying summary of auditors' results.

### **Management's Responsibility**

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the limited compliance requirements for IMA's major state program based on our audit of the limited procedures required. 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 audit requirements of *Wisconsin Public School District Audit Manual*. An audit includes examining on a test basis, evidence about IMA's compliance with those limited 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 on compliance with the limited compliance requirements for the major state program with limited required procedures. However, our audit does not provide a legal determination on the IMA's compliance.

### **Opinion on The Major State Program**

In our opinion, IMA complied, in all material respects, with the limited requirements referred to above for its major state program with limited required procedures for the year ended July 31, 2019.

### **Report on Internal Control Over Compliance**

Management of IMA is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered IMA's internal control over compliance with the types of requirements that could have an effect on the major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the limited required compliance requirements for the major state program with limited required procedures and to test and report on internal control over compliance in accordance with *Wisconsin Public School District Audit Manual*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of IMA's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of testing based on requirements of *Wisconsin Public School District Audit Manual*. Accordingly, this report is not suitable for any other purpose.

*Wegner CPAs LLP*

Wegner CPAs, LLP  
Madison, Wisconsin  
February 20, 2020

**ISTHMUS MONTESSORI ACADEMY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended July 31, 2019

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**Section I—Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

State Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the <i>Wisconsin Public School District Audit Manual</i> ?	No

Identification of state major programs:

State Identifying Number	Name of State Program
255.289	Charter Schools State Aid - 2x

Dollar threshold used to distinguish between type A and type B programs:	\$ 250,000
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**ISTHMUS MONTESSORI ACADEMY, INC.**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended July 31, 2019

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**Section II—Financial Statement Findings**

*Significant Deficiencies*

Finding 2019-001

Criteria: Management is responsible for the design and implementation of internal controls such that management and other school employees, in the normal course of performing their assigned functions, are able to prevent, or detect and correct misstatements on a timely basis.

Condition: IMA's bank reconciliation for one of its cash accounts at its fiscal year end did not match the amount cash recorded in its trial balance. Accounting staff were unable to correct the error. The discrepancy was not material.

Effect: Cash amounts could be stated incorrectly in the financial statements.

Cause: Procedures are not implemented to ensure the cash information recorded matches the amount on the bank statement reconciliations.

Recommendation: We recommend that IMA staff verify that cash balances per the trial balance match the cash amounts per the bank reconciliations.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and will consider implementing procedures to verify cash amounts recorded.

Finding 2019-002

Criteria: Management is responsible for the design and implementation of internal controls such that management and other school employees, in the normal course of performing their assigned functions, are able to prevent, or detect and correct misstatements on a timely basis.

Condition: Not all of IMA's cash accounts were recorded in the trial balance during the year. The balances of the cash accounts unrecorded were not material at year end.

Effect: Cash amounts could be stated incorrectly in the financial statements.

Cause: Procedures are not in place to ensure that all the cash information is recorded.

Recommendation: We recommend that IMA staff verify that the all cash accounts shown on its bank statements are recorded in the accounting software.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and will consider implementing procedures to verify cash accounts recorded are complete.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended July 31, 2019

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Finding 2019-003

Criteria: Management is responsible for the design and implementation of internal controls such that management and other school employees, in the normal course of performing their assigned functions, are able to prevent, or detect and correct misstatements on a timely basis.

Condition: Reviews of banking activities are not documented.

Effect: The possibility exists that cash could be diverted for unauthorized purposes.

Cause: Procedures are not in place to document the review of bank statements and bank activity by IMA staff not involved with the cash disbursements process.

Recommendation: We recommend an individual independent of the check preparation process review the bank statements and online bank activity, including the canceled check images, and that this work be explicitly documented each month.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and will consider implementing procedures to document reviews of bank activity monthly.

Finding 2019-004

Criteria: Management is responsible for the design and implementation of internal controls such that management and other school employees, in the normal course of performing their assigned functions, are able to prevent, or detect and correct misstatements on a timely basis.

Condition: IMA has established a subsidiary organization: Isthmus Public Montessori Academy Public Charter School, Inc. This is the entity that holds the charter for its public school. IMA management did not have copies of its subsidiary's governing documents in its possession.

Effect: Questions about the legal structure and formal existence of the Isthmus Public Montessori Academy Public Charter School, Inc. cannot be addressed by IMA management.

Cause: Procedures are not in place to ensure the governing documents of affiliated organizations are maintained onsite and easily accessible.

Recommendation: We recommend that management obtain copies of all governing documents of its affiliated organizations from its legal counsel and maintain them in a secure location.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and will take steps to properly maintain such documents.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended July 31, 2019

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Finding 2019-005

Criteria: Management is responsible for the design and implementation of internal controls such that management and other school employees, in the normal course of performing their assigned functions, are able to prevent, or detect and correct misstatements on a timely basis.

Condition: Reviews of payroll reports are not documented by an individual uninvolved with the payroll process.

Effect: Organizational resources could be diverted through the payroll system without proper oversight.

Cause: Procedures are not in place to document the review of the payroll reports.

Recommendation: We recommend that an individual independent of the payroll process review payroll reports after each payroll run, and that these reviews be documented.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and will consider implementing procedures to document the review the payroll reports.

Finding 2019-006

Criteria: Management is responsible for the design and implementation of internal controls such that management and other school employees, in the normal course of performing their assigned functions, are able to prevent, or detect and correct misstatements on a timely basis.

Condition: IMA received pro bono legal services during the year that were not recorded in the financial statements. The amount was not material.

Effect: Misstatements of the financial statements could result when in-kind contribution information is not captured by the accounting staff.

Cause: Procedures are not in place to ensure that in-kind contribution information is being communicated to accounting staff, enabling it to be recorded properly.

Recommendation: We recommend procedures be implemented to notify accounting staff in any instance where in-kind contributions are received.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and will consider implementing procedures to establish procedures over in-kind contributions.

**ISTHMUS MONTESSORI ACADEMY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended July 31, 2019

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Finding 2019-007

Criteria: Management is responsible for the design and implementation of internal controls such that management and other school employees, in the normal course of performing their assigned functions, are able to prevent, or detect and correct misstatements on a timely basis.

Condition: Lack of dual control over cash receipts at fundraising events.

Effect: Possible diversion of assets. Cash could be diverted from IMA before it's recorded and deposited

Cause: No procedures are in place requiring dual control over cash receipts.

Recommendation: We recommend that two individuals maintain a log of cash receipts at fundraising events. At the end of the events, both individual should count the cash received, reconcile it to the cash receipts log, and document their results.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and will consider implementing procedures to establish dual controls over cash contributions.

**Section III—State Award Findings and Questioned Costs**

No matters noted.

**Section IV—Other Issues**

Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the audile's ability to continue as a going concern? No

Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue, or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *Wisconsin Public School District Audit Manual*:

Department of Public Instruction No

**ISTHMUS MONTESSORI ACADEMY, INC.**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended July 31, 2019

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Was a management letter or other document conveying audit comments issued as a result of this audit? No

Name and signature of partner

  
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Scott R. Haumersen, CPA

Date of report

February 20, 2020