



**eStem Public Charter School**

**Regulatory Basis Financial Statements  
and  
Supplementary Information  
June 30, 2020**

**(With Independent Auditor's Reports Thereon)**

# eStem Public Charter School

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
eStem Public Charter School  
Little Rock, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the fiduciary fund of the charter school known as **eStem Public Charter School (the School)**, which comprise the balance sheet – regulatory basis of the governmental funds as of June 30, 2020, the related statement of revenues, expenditures and changes in fund balance – governmental funds – regulatory basis, the statement of revenues, expenditures and changes in fund balance – budget and actual – general and special revenue funds – regulatory basis 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 the financial reporting provisions of Arkansas Code Annotated §10-4-413(c) as provided in Act 2201 of 2005, 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 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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating

**Auditor's Responsibility (*Continued*)**

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.

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

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by the School on the basis of the financial reporting provisions of Arkansas Code Annotated §10-4-413(c) as provided by Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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 on the preceding page do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the School as of June 30, 2020, or the changes in its financial position for the year then ended.

**Unmodified Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the fiduciary fund information of the School as of June 30, 2020, 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 2201 of 2005, as described in Note 1.

**Other Matters**

*Supplementary 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, which is the responsibility of management, is presented for the purpose of additional analysis and in compliance with state statute and is not a required part of the financial statements. 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.

**Other Matters (Continued)**

*Supplementary Information (Continued)*

The schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for the purpose of additional analysis and is not a required part of the regulatory basis financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis 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 regulatory basis 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 March 17, 2021, on our consideration of the 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 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 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 School's internal control over financial reporting and compliance.

  
Certified Public Accountants

Little Rock, Arkansas  
March 17, 2021

# eStem Public Charter School

## Balance Sheet – Regulatory Basis June 30, 2020

	<b>Governmental Funds</b>		
	<b>Major</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Fiduciary Fund</b>
<b>ASSETS</b>			
Cash	\$ 573,051	\$ 24,977	\$ 157,404
Repurchase agreement	3,065,012	-	-
Accounts receivable	189,876	132,758	-
Due from special revenue fund	82,534	-	-
<b>TOTAL ASSETS</b>	<b>\$ 3,910,473</b>	<b>\$ 157,735</b>	<b>\$ 157,404</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 293,527	\$ 300	\$ -
Accrued payroll and related expenditures	1,521,489	-	-
Due to CMO, net	613,354	-	-
Due to student groups	-	-	157,404
Due to general fund	-	82,534	-
<b>Total Liabilities</b>	<b>2,428,370</b>	<b>82,834</b>	<b>157,404</b>
<b>Fund Balances</b>			
Restricted	-	74,901	-
Unassigned	1,482,103	-	-
<b>Total Fund Balances</b>	<b>1,482,103</b>	<b>74,901</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,910,473</b>	<b>\$ 157,735</b>	<b>\$ 157,404</b>

See accompanying notes to financial statements.

# eStem Public Charter School

## Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis For the Year Ended June 30, 2020

	<b>Governmental Funds</b>	
	<b>Major</b>	
	<b>General</b>	<b>Special Revenue</b>
<b>REVENUES</b>		
State assistance	\$ 26,276,940	\$ 4,322
Federal assistance	-	2,310,574
Meal sales	-	172,486
Private assistance	118,878	-
Interest	5,869	-
<b>Total Revenues</b>	<b>26,401,687</b>	<b>2,487,382</b>
<b>EXPENDITURES</b>		
Instructional services	11,438,890	740,671
Instructional support services	746,324	202,696
Student support services	2,358,443	837,447
School administration	1,207,115	-
General administration	639,723	83,260
Central services	2,786,302	-
Community services	-	485
Operation and maintenance of plant	5,533,110	-
Transportation	25,501	-
Food services	2,016	741,055
Capital outlay	293,747	-
<b>Total Expenditures</b>	<b>25,031,171</b>	<b>2,605,614</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>		
<b>(EXCESS OF EXPENDITURES OVER REVENUES)</b>	<b>1,370,516</b>	<b>(118,232)</b>
<b>OTHER FINANCING (USES) SOURCES</b>		
Operating transfer to food service	(140,838)	140,838
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,229,678</b>	<b>22,606</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>252,425</b>	<b>52,295</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 1,482,103</b>	<b>\$ 74,901</b>

See accompanying notes to financial statements.

# eStem Public Charter School

## Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis For the Year Ended June 30, 2020

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
State assistance	\$ 25,678,443	\$ 26,276,940	\$ 598,497	\$ 2,400	\$ 4,322	\$ 1,922
Federal assistance	-	-	-	2,728,312	2,310,574	(417,738)
Meal sales	-	-	-	215,280	172,486	(42,794)
Private assistance	-	118,878	118,878	-	-	-
Interest	1,000	5,869	4,869	-	-	-
<b>Total Revenues</b>	<b>25,679,443</b>	<b>26,401,687</b>	<b>722,244</b>	<b>2,945,992</b>	<b>2,487,382</b>	<b>(458,610)</b>
<b>EXPENDITURES</b>						
Instructional services	11,969,916	11,438,890	531,026	916,336	740,671	175,665
Instructional support services	654,654	746,324	(91,670)	203,366	202,696	670
Student support services	2,392,032	2,358,443	33,589	880,803	837,447	43,356
School administration	1,226,589	1,207,115	19,474	-	-	-
General administration	632,099	639,723	(7,624)	113,972	83,260	30,712
Central services	2,208,309	2,786,302	(577,993)	-	-	-
Community services	-	-	-	13,544	485	13,059
Operation and maintenance of plant	5,430,970	5,533,110	(102,140)	-	-	-
Transportation	34,705	25,501	9,204	-	-	-
Food services	2,346	2,016	330	865,445	741,055	124,390
Capital outlay	-	293,747	(293,747)	-	-	-
<b>Total Expenditures</b>	<b>24,551,620</b>	<b>25,031,171</b>	<b>(479,551)</b>	<b>2,993,466</b>	<b>2,605,614</b>	<b>387,852</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>						
<b>(EXCESS OF EXPENDITURES OVER REVENUES)</b>	<b>1,127,823</b>	<b>1,370,516</b>	<b>242,693</b>	<b>(47,474)</b>	<b>(118,232)</b>	<b>(70,758)</b>
<b>OTHER FINANCING (USES) SOURCES</b>						
Operating transfer to food service	(64,725)	(140,838)	(76,113)	-	140,838	140,838
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,063,098</b>	<b>1,229,678</b>	<b>166,580</b>	<b>(47,474)</b>	<b>22,606</b>	<b>70,080</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>252,425</b>	<b>252,425</b>	<b>-</b>	<b>52,295</b>	<b>52,295</b>	<b>-</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 1,315,523</b>	<b>\$ 1,482,103</b>	<b>\$ 166,580</b>	<b>\$ 4,821</b>	<b>\$ 74,901</b>	<b>\$ 70,080</b>

See accompanying notes to financial statements.



# **eStem Public Charter School**

## **Notes to Financial Statements June 30, 2020**

### ***NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

#### **Reporting Entity**

eStem Public Charter School (the School) is operated as an open-enrollment charter school in accordance with the Arkansas Department of Education (ADE) Rules and Regulations Governing Charter Schools and offers educational opportunities for students in grade levels from kindergarten through twelfth grade. Effective July 1, 2013, the Arkansas State Board of Education (the State Board) renewed the School's charter for a ten-year period that will expire on June 30, 2023 and capped their enrollment at 3,844 students. The School was created as a single school district through a merger, approved by the State Board effective July 1, 2013, of the three charters granted to eStem Elementary Public Charter School (the Elementary School), eStem Middle Public Charter School (the Middle School) and eStem High Public Charter School (the High School). The Elementary School, the Middle School and the High School are separate nonprofit legal entities incorporated under the laws of the State of Arkansas (the State) but are considered to be one entity for state reporting purposes.

The School is party to certain agreements and shares certain common board members with eStem Public Charter Schools, Inc., (the Charter Management Organization, hereinafter referred to as the CMO). While the CMO and the School share certain common board members, each organization is a separate legal entity. These financial statements include only balances and transactions directly attributable to the School and do not include any balances or transactions attributable to the CMO.

#### **Measurement Focus and Basis of Accounting**

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Arkansas Code Annotated §10-4-413(c), as provided in Act 2201 of 2005, and 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, if any, 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 and special revenue funds of the entity; notes to the financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with U.S. generally accepted accounting principles (U.S. GAAP). U.S. GAAP require that basic financial statements present government-wide financial statements. Additionally, 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; inclusion of the net pension liability 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.

# eStem Public Charter School

## Notes to Financial Statements June 30, 2020

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Measurement Focus and Basis of Accounting (Continued)**

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 the General Fund and the Special Revenue Fund, as described below:

General Fund – The General Fund is used to account for and report all financial resources and operating expenditures of the School not accounted for and reported in another fund.

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 expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures which are restricted for specific educational programs or projects, including the School's food services operations.

Fiduciary Fund – The Fiduciary Fund type is used to report balances held by the School on behalf of various student clubs, groups and organizations. These resources are held by the School acting as a custodial agent for others.

The School had no other funds during the year ended June 30, 2020.

#### **Revenue Recognition**

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

#### **Capital Assets**

Capital assets are reported at historical cost or estimated historical cost, if actual historical cost is not available. 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. The School maintains a threshold level of \$1,000 for capitalizing assets.

Capital assets are depreciated using the straight-line method over their estimated useful lives, which range from three to twenty years. No salvage value is taken into consideration for purposes of calculating depreciation.

#### **Interfund Balances and Transactions**

Receivables and payables resulting from short-term interfund loans are classified as due to or due from other funds.

# **eStem Public Charter School**

## **Notes to Financial Statements June 30, 2020**

### ***NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***

#### **Fund Balances**

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable 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 School's governing body. Assigned fund balance represents amounts that are constrained by the School's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance represents amounts that have not been assigned to other funds and that have not been restricted, committed or assigned to specific purposes within the general fund.

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

The School's revenues, expenditures and fund balances are tracked in the accounting system by source of funds. The fund balance of these sources of funds are combined to derive the School's total fund balance by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted funds. The School's policy is to use restricted fund balances first, then unassigned 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.

#### **Budget and Budgetary Accounting**

The School is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The School is generally not required to submit amended budgets during the fiscal year. The ADE's regulations allow for the cash basis or the modified accrual basis. 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.

#### **Stabilization Arrangements**

The School's Board of Directors has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

#### **Minimum Fund Balance Policies**

The School's Board of Directors has not formally adopted a minimum fund balance policy.

# eStem Public Charter School

## Notes to Financial Statements June 30, 2020

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Use of Estimates**

The preparation of financial statements in conformity with the RBA requires management to make estimates and assumptions that affect 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 School's cash consists of demand deposits maintained at a financial institution. State statutes require that the School's funds be deposited in banks located in the State and that all deposit balances in excess of Federal Deposit Insurance Corporation insurance limits be collateralized. At June 30, 2020, the bank balances of the School's demand deposit accounts maintained at a financial institution totaled \$773,580, all of which either was insured or collateralized.

### **NOTE 3: REPURCHASE AGREEMENT**

At June 30, 2020, the School held securities through a repurchase agreement in the amount of \$3,065,012. Securities purchased through this agreement are limited to U.S. Treasuries, U.S. Government agencies, mortgage-backed securities and collateralized mortgage obligations.

### **NOTE 4: ACCOUNTS RECEIVABLE**

The accounts receivable balances at June 30, 2020 were comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance	\$ -	\$ 132,758	\$ 132,758
State assistance	138,397	-	138,397
Other	51,479	-	51,479
Totals	\$ 189,876	\$ 132,758	\$ 322,634

# eStem Public Charter School

## Notes to Financial Statements June 30, 2020

### **NOTE 5: LEASE COMMITMENTS**

Certain equipment and facilities are leased under noncancelable operating lease agreements with terms in excess of one year. Approximate future minimum lease payments, by fiscal year, under such leases at June 30, 2020 are as follow:

2021	\$ 2,271,733
2022	2,269,446
2023	2,228,802
2024	2,228,803
2025	2,700,670
2026-2030	15,862,692
2031-2035	12,662,236
2036-2040	10,303,341
2041-2045	8,872,420
2046-2048	<u>4,436,210</u>
Total	<u>\$ 63,836,353</u>

Total occupancy and equipment rentals were approximately \$2,276,000 for the year ended June 30, 2020.

### **NOTE 6: ACCOUNTS PAYABLE**

Accounts payable at June 30, 2020 were comprised of vendor payables of \$293,527 from the General Fund and \$300 from the Special Revenue Fund.

### **NOTE 7: RETIREMENT PLAN**

#### Plan Description

The School contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies, 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 provisions are established by state law and can be amended only by the Arkansas General Assembly. 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 1-800-666-2877, or by visiting the ATRS website at [www.artrs.gov](http://www.artrs.gov).

# **eStem Public Charter School**

## **Notes to Financial Statements June 30, 2020**

### **NOTE 7: RETIREMENT PLAN (Continued)**

#### 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, 2020 is 14.25% of covered salaries. The School's contributions to ATRS for the year ended June 30, 2020, 2019 and 2018 were approximately \$2,000,000, \$1,764,000 and \$1,104,000, respectively, which were equal to the required contributions for each year.

#### Net Pension Liability

The ADE has stipulated that the requirements of Governmental Accounting Standards Board Statement No. 68 under the RBA would be limited to disclosure of the School's proportionate share of the collective net pension liability. The School's proportionate share of the collective net pension liability at June 30, 2019 (the actuarial valuation date and measurement date) was \$17,145,755.

### **NOTE 8: ON BEHALF PAYMENTS**

The allocation of the health insurance premiums paid by the ADE, on behalf of the School's employees, totaled approximately \$501,000 for the year ended June 30, 2020.

### **NOTE 9: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

At June 30, 2020, the Special Revenue fund balance was restricted for administrative activities for the Medical Assistance Program.

### **NOTE 10: ACADEMIC AND BUSINESS SERVICES AGREEMENT**

The CMO provides facilities, personnel and certain services to the 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.

These services are provided pursuant to a management agreement and related amendments (the Agreement) executed between the CMO and the School. The Agreement provides that the CMO is entitled to receive management fees equal to the CMO's board approved budgeted operating expenses, to the extent that such fees do not cause the School to incur a loss in the General Fund. In addition, the CMO will be reimbursed for all expenses incurred by the CMO on behalf of the School.

In addition to providing academic and business services, the CMO may from time-to-time make expenditures on behalf of the School for computers, equipment or operating expenses.

# eStem Public Charter School

## Notes to Financial Statements June 30, 2020

### **NOTE 10: ACADEMIC AND BUSINESS SERVICES AGREEMENT (Continued)**

The School may also provide and receive periodic advances to and from the CMO. At June 30, 2020, outstanding balances are reported as “due to CMO, net” on the accompanying balance sheet – regulatory basis.

For the year ended June 30, 2020, management fees totaled approximately \$1,381,000, and expenditures reimbursed to the CMO were as follows:

Payroll and related expenditures	\$ 115,382
Operating expenditures	<u>536,602</u>
Total	<u>\$ 651,984</u>

### **NOTE 11: RISK MANAGEMENT**

The 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 School has purchased commercial insurance to address these risks.

The School participates in the Arkansas School Board Association – Workers’ Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994, pursuant to state law. The Trust is responsible for obtaining and administering workers’ compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating and settling claims that have been filed on behalf of and against member districts. The School contributes annually to this program.

There have been no significant reductions in the School’s insurance coverage during the year ended June 30, 2020. In addition, there have been no settlements in excess of the School’s coverage.

### **NOTE 12: RISKS AND UNCERTAINTIES**

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the School and financial results will depend on future developments, including the duration of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.

# eStem Public Charter School

## Schedule of Capital Assets (Unaudited) June 30, 2020

### DEPRECIABLE CAPITAL ASSETS

Furniture and equipment	\$ 1,899,716
Accumulated depreciation	<u>(1,414,376)</u>

<b>TOTAL DEPRECIABLE CAPITAL ASSETS, NET</b>	<b><u><u>\$ 485,340</u></u></b>
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See Independent Auditor's Report.





**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 Directors  
eStem Public Charter School  
Little Rock, Arkansas

We have audited, 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, the financial statements of each major governmental fund and the fiduciary fund information of the charter school known as **eStem Public Charter School (the School)** as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's regulatory basis financial statements, and have issued our report thereon dated March 17, 2021. We issued an adverse opinion because the School prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code Annotated § 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. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, 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 School as of June 30, 2020, 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 to the financial statements.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 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.

### **Internal Control Over Financial Reporting (*Continued*)**

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of regulatory basis 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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governance Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Certified Public Accountants

Little Rock, Arkansas  
March 17, 2021



## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Directors  
eStem Public Charter School  
Little Rock, Arkansas

### **Report on Compliance for Each Major Federal Program**

We have audited **eStem Public Charter School's (the School)** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2020. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. 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 audit requirements of Title 2 of the *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

## Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the School'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 federal 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 federal 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 federal 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 material weaknesses or significant deficiencies. 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.

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 that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
Certified Public Accountants

Little Rock, Arkansas  
March 17, 2021

# eStem Public Charter School

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2020

Federal Grantor/Pass -Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<b>U.S. Department of Agriculture</b>			
Passed Through Arkansas Department of Education: National School Lunch Program	10.555	3604770001	\$ 423,407
<b>SPECIAL EDUCATION CLUSTER (IDEA)</b>			
<b>U.S. Department of Education</b>			
Passed Through Arkansas Department of Education: IDEA, Part B - Special Education - Grants to States	84.027	3604770001	700,145
IDEA, Part B - Special Education - Preschool Grants	84.173	3604770001	19,397
Total Special Education Cluster (IDEA)			719,542
<b>OTHER PROGRAMS</b>			
<b>U.S. Department of Education</b>			
Passed Through Arkansas Department of Education: Title I, Part A - Grants to Local Educational Agencies	84.010	3604770001	738,134
Title II, Part A -Supporting Effective Instruction State Grant	84.367	3604770001	104,066
Title III, Part A - English Language Acquisition	84.365	3604770001	13,975
Title IV, Part A - Student Support and Academic Enrichment Program	84.424	3604770001	43,990
Education Stabilization Fund Under the Coronavirus Aid, Relief and Economic Security Act	84.425	3604770001	17,456
Total U.S. Department of Education			917,621
<b>U.S. Department of Health and Human Services</b>			
Passed Through Arkansas Department of Education: Medical Assistance Program (ARMAC)	93.778	3604770001	224,946
Total U.S. Department of Health and Human Service			224,946
<b>Total Other Programs</b>			1,142,567
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 2,285,516

(Continued)

See Independent Auditor's Report.

# **eStem Public Charter School**

## **Schedule of Expenditures of Federal Awards (*Continued*) Year Ended June 30, 2020**

### **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

- Note 1: Basis of Presentation – The Schedule of Expenditures of Federal Awards (the “Schedule”) includes federal grant activity of eStem Public Charter School (the School) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position or changes in financial position of the School.
- Note 2: Summary of Significant Accounting Policies – Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Note 3: The School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.
- Note 4: During the year ended June 30, 2020, the School received Medicaid funding of \$17,372 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the Schedule.

**See Independent Auditor’s Report.**

# **eStem Public Charter School**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2020**

### **Section I – Summary of Auditor’s Results**

- **Type of Auditor’s Reports Issued**  
GAAP basis of reporting – Adverse  
Regulatory basis opinion units – Unmodified
- **Internal Control over Financial Reporting**  
No material weakness or significant deficiency identified.
- **Noncompliance Material to Financial Statements Noted**  
None
- **Internal Control over Major Federal Programs**  
No material weakness or significant deficiency identified.
- **Type of Auditor’s Report Issued on Compliance for Major Federal Programs**  
Unmodified opinion
- **Audit Findings Under the Uniform Guidance**  
None
- **Identification of Major Federal Programs**  
Department of Education, Title I, Part A – Grants to Local Educational Agencies, CFDA #84.010
- **Dollar Threshold used to Distinguish Between Type A and Type B programs**  
\$750,000
- **Auditee Qualified as Low-Risk Auditee**  
Yes

**See Independent Auditor’s Report.**