

Sherwood Montessori

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(With Independent Auditors' Reports Thereon)

SHERWOOD MONTESSORI

ANNUAL FINANCIAL REPORT

June 30, 2011

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373 Smile Place
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sherwood Montessori
746 Moss Avenue
Chico, CA

We have audited the accompanying statement of financial position of Sherwood Montessori (the School), a California non profit public corporation, as of and for the year ended June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the School as of June 30, 2011, and the changes in its net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Sherwood Montessori

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 14-19 is presented for the purposes of additional analysis. These schedules are not a required part of the basic financial statements. The supplementary section is the responsibility of management and was derived from and related 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 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

J.R. Martin & Associates

December 9, 2011

SHERWOOD MONTESSORI
STATEMENT OF FINANCIAL POSITION
For the Year Ended June 30, 2011

ASSETS

Current assets

Cash on hand and in banks	\$	41,716
Accounts receivable:		
Accounts receivable - Federal and state governments		125,245
Accounts receivable - Other		13,530
Deposits and prepaid assets		11,551
Total current assets		192,042

Noncurrent assets

Property, plant and equipment, net		77,141
Total assets	\$	269,183

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$	39,085
Other current liabilities		39,920
Total current liabilities		79,005

Long Term Liabilities

Lease obligation		15,021
Total liabilities		94,026

Net assets

Unrestricted		175,157
Total net assets		175,157
Total liabilities and net assets	\$	269,183

SHERWOOD MONTESSORI
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

REVENUES

Revenue from Federal Sources:	
Public charter school grant program	\$ 430,798
Education jobs fund	15,527
Total Revenue from federal sources	<u>446,325</u>
Revenue from state sources:	
General purpose block grant	292,854
Other state revenue	73,991
Total revenue from state sources	<u>366,845</u>
Revenue from local sources:	
In-lieu property tax	140,746
Interest	63
Other	44,001
Total revenue from local sources	<u>184,810</u>
Total unrestricted revenues	<u><u>997,980</u></u>

EXPENSES

Program services:	
Instruction	184,937
Instruction-related services	240,039
Pupil services	19,999
Support services:	
General administration	70,270
Plant services	297,375
Depreciation	9,146
Other	1,057
Total expenses	<u>822,823</u>
Change in unrestricted net assets	175,157
Unrestricted net assets - beginning of year	<u>-</u>
Unrestricted net assets - end of year	<u><u>\$ 175,157</u></u>

SHERWOOD MONTESSORI
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$	175,157
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		9,146
Accounts receivable - Federal and state governments		(125,245)
Accounts receivable - other		(13,570)
Prepaid expenses		(7,508)
Deposits		(4,043)
Accounts payable		29,434
Accrued expenses, and other liabilities		39,920
Decrease in deferred revenue		(199,670)
Net cash used by operating activities		(96,379)
Cash flows from investing activities:		
Purchases of equipment		(76,031)
Cash flows from financing activities:		
Capital lease		15,021
		15,021
Net increase in cash and cash equivalents		(157,389)
Cash and cash equivalents at the beginning of the year		199,105
Cash and cash equivalents at the end of the year	\$	41,716

SHERWOOD MONTESSORI

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

History of the Sherwood

Beginning in May 2007, parents and educators in the greater Chico area met informally to discuss the viability of a public Montessori-methods elementary school. The discussion focused on how the Montessori philosophy can be formulated into a pedagogical model that would allow for rigorous treatment of California State Standards. Also discussed was how to lay the framework for a long-term sustainable school, with clear governance and financial stability, while still remaining true to the fundamental tenets of the Montessori philosophy. An exploratory phase focused on surveying successful and unsuccessful Montessori charter schools and public schools in California and across the nation. Best-models were identified and discussion shifted to how to best implement these practices in the Chico community. The final stage comprised consultation with the California Department of Education, California Charter Schools Association, and various Montessori training centers.

Once it appeared that the envisioned school model was legal and likely financially stable, Sherwood Montessori was incorporated as a non-profit public benefit corporation in the State of California. Today the school serves the Chico community by providing a rich and supportive educational environment for children based upon the philosophy of Maria Montessori which allows each child to reach his or her own potential academically, personally, and socially and will focus on educating the whole child intellectually, physically, and psychologically.

The Chico Unified School District (District) has granted the charter through June 30, 2011, subject to amendment and renewal. The charter may be revoked by the District only for material violations of the charter, failure to meet student outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provisions of the law.

The School has a memorandum of understanding with the District whereby the School pays the District 1% of the School's per pupil revenues to provide administrative oversight.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board. The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- Unrestricted: All resources over which the governing board has discretionary control to use in clarifying on the general operations of the School.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The School does not currently have any temporarily restricted net assets.

SHERWOOD MONTESSORI

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the School. The School does not currently have any permanently restricted net assets.

Basis of Accounting

The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and other liabilities.

Cash and Cash Equivalents

The School's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Revenue Recognition

Amounts received from the California Department of Education are recognized as revenue by the School based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supportive services benefited.

SHERWOOD MONTESSORI

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor as required by financial accounting standards. Amounts received that are designated for specific use in future periods are reported as temporarily restricted. When the restriction expires, temporarily restricted net assets are classified to unrestricted net assets for expenditure.

Contributed Services

Generally accepted accounting principles require that contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are to be recorded at fair value in the period received. Although the School receives numerous hours of volunteer time, it is not deemed necessary to record these hours on the books of the School based on the above guidelines. In addition, the School receives donations of immaterial equipment and supplies which are not recorded upon receipt.

Capital Assets

Property, plant, and equipment are capitalized at cost (or estimated historical cost) if purchased or at estimated fair market value as of the date received if donated. The School capitalizes expenditures for property, plant, and equipment in excess of \$2,000. Certain assets are capitalized into groups whose individual cost is less than \$2,000 and have an estimated useful life in excess of one year. Such assets are recorded at historical grouped cost if purchased or constructed. Plant and equipment is depreciated using the straight-line method over the following useful lives:

Description of Estimated Lives

Computers and Electronics	5 years
Software	3 years
Furniture	7 years
Library Books/Media	10 years
Land Improvements	15 years

SHERWOOD MONTESSORI

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property Taxes

The District provides in-lieu property tax payments on or before the 15th of each month pursuant to Education Code Section 47635. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

Subsequent Events

All events subsequent to the balance sheet date of June 30, 2011, through December 9, 2011, which is the date these financial statements were available to be issued, have been evaluated in accordance with financial accounting standards. There were no subsequent events requiring recognition or disclosure as of June 30, 2011.

Income Taxes

Sherwood Montessori Charter School is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes.

Management has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Schools' continued qualification as a tax-exempt organization. Management has determined that all income tax positions are more likely than not (>50%) of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Schools file informational returns in the U.S. federal jurisdiction, and the state of California.

Risk Management

Sherwood Montessori maintains insurance for general and excess liability, auto liability, and workers compensation pursuant to its Memorandum Of Understanding with the District. Additional risk management activities include an injury illness prevention plan, blood borne pathogen training, hazard communication program, emergency plan, and documentation of employee safety training.

SHERWOOD MONTESSORI

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 2 - DEPOSITS:

Concentration of Credit Risk

The School maintains a bank account with a single institution. The account at this institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2011 there were no deposits in excess of the FDIC limit.

NOTE 3 - OPERATING LEASES:

The School has entered into an operating lease for equipment, with the lease term in excess of one year. Current lease expense for the year under these agreements is \$4,157. Future minimum lease payments under this agreement are \$16,628, with annual amounts as follows:

Year Ending:

<u>June 30</u>	<u>Lease Payments</u>
2012	\$ 4,157
2013	4,157
2014	4,157
2015	4,157

SHERWOOD MONTESSORI

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 4 - EMPLOYEE RETIREMENT PLAN:

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS).

State Teacher & Retirement System (STRS)

Plan Description

The School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-11 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS

The School's contributions to STRS for the last fiscal year are as follows:

<u>Year Ended</u>	<u>Required</u>	<u>Percent</u>
<u>June 30, 2011</u>	<u>Contribution</u>	<u>Contributed</u>
2011	\$22,820	100%

SHERWOOD MONTESSORI

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 5 - CONTINGENCIES:

Federal and State Allowances, Awards, and Grants

The School has received federal and state funds for specific purposes that are subject to review from the grantor agencies. Although such audits could generate expenditure disallowances of the grants, it is believed that any required reimbursement will not be material.

NOTE 6 - PROPERTY, PLANT, AND EQUIPMENT:

As of June 30, 2011 the cost and accumulated depreciation of property, plant as follows:

	Balance			Balance
	6/30/2010	Additions	Retirements	6/30/2011
Computers and Electronics	\$ -	\$ 8,654	\$ -	\$ 8,654
Furniture	-	41,482	-	41,482
Software	-	4,985	-	4,985
Leased Asset	-	18,264	-	18,264
Library Books/Media	10,520	-	-	10,520
Land Improvements	-	2,645	-	2,645
Totals at historical cost	10,520	76,030	-	86,550
Less accumulated depreciation for:				
Computers and Electronics	-	866	-	866
Furniture	-	2,961	-	2,961
Software	-	831	-	831
Leased Asset	-	3,348	-	3,348
Library Books/Media	263	1,052	-	1,315
Land Improvements	-	88	-	88
Total accumulated depreciation	263	9,146	-	9,409
Property, plant, and equipment, net	\$ 10,257	\$ 66,884	\$ -	\$ 77,141

SHERWOOD MONTESSORI

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 7 - DEFINED BENEFIT PENSION PLAN:

Plan Description

The District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board action. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office (400 P Street, Sacramento, CA, 95814).

Funding Policy

Active members in the plan are required to contribute 7% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010/2011 was approximately 10.7097%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established, and may be amended, by CalPERS.

Annual Pension Cost:

Currently annual pension cost from CalPERS is not available for Sherwood Montessori.

SUPPLEMENTARY INFORMATION SECTION

SHERWOOD MONTESSORI

HISTORY AND ORGANIZATION

June 30, 2011

Sherwood Montessori (the school) is a California Charter School located in Chico, CA. The school was organized under the Nonprofit Public Benefit Corporation Law for public and charitable purposes Section 501(c)3 on September 2, 2009. The schools charter was approved by the District with the school opening August 25, 2010. The charter is valid through June 30, 2011, subject to amendment and renewal. The charter may be revoked by the District only for material violations of the charter, failure to meet student outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provisions of the law. Governance of the school is through seven Board Members known as the Board of Directors. Board Members are selected by an Elections Committee, appointed by the Board of Directors. The Election Committee consists of two current Board of Directors with terms that extend beyond the current year and one member of the Sherwood Montessori Parent Organization.

Charter number is: 1189

The Governing Board and Administrators for the fiscal year ending June 30, 2011 were as follows:

<u>Name</u>	<u>Title</u>	<u>Term</u>
Russell Shapiro	Chairman	2010-2013
David Green	Vice Chairman	2010-2012
Rae Morrison	Treasurer	2011-2014
Jill Bailey	Secretary	2010-2013
Erwin Williams	Director	2011-2014
Harvey Rappaport	Director	2010-2012
Stephen Lucas	Director	2011-2014

BOARD MEMBERS OFFICE TERM: Initial term of three years with staggered terms of approximately one third of the Board of Directors to one, two, and three year terms. Upon expiration of the designated terms the term of each newly elected Board of Directors shall continue for three years.

ADMINISTRATION

Michelle Yezbick, School Director

SHERWOOD MONTESSORI

SUPPLEMENTARY INFORMATION

June 30, 2011

BUDGETARY COMPARISON SCHEDULE

Fiscal year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with</u>
				<u>Final</u>
				<u>Budget</u>
Revenues:				
Local	\$ 852,117	\$ 568,917	\$ 551,655	\$ (17,262)
Federal grants	4,486	234,280	446,325	212,045
Total revenues	<u>856,603</u>	<u>803,197</u>	<u>997,980</u>	<u>194,783</u>
Expenditures:				
Current:				
Salaries and wages	335,696	358,391	383,517	25,126
Instructional media	97,066	231,073	130,513	(100,560)
School administration	70,833	69,150	70,270	1,120
Operation of school	129,390	179,088	176,008	(3,080)
Capital outlay	27,840	5,727	76,030	70,303
Total expenditures	<u>660,825</u>	<u>843,429</u>	<u>836,338</u>	<u>(7,091)</u>
Excess (Deficit) of revenues over expenditures	<u>195,778</u>	<u>(40,232)</u>	<u>161,642</u>	<u>201,874</u>
Other financing sources (uses):				
Transfers in	-			
Transfers out	<u>(121,590)</u>	<u>(66,641)</u>	<u>(62,515)</u>	<u>4,126</u>
Total other financing sources (uses)	<u>(121,590)</u>	<u>(66,641)</u>	<u>(62,515)</u>	<u>4,126</u>
Net change in fund balances	74,188	(106,873)	99,127	206,000
Fund balances, beginning	<u>-</u>	<u>193,259</u>	<u>-</u>	<u>(193,259)</u>
Fund balances, ending	<u>\$ 74,188</u>	<u>\$ 86,386</u>	99,127	<u>\$ 12,741</u>
Capitalized assets			<u>76,030</u>	
Fund balances, ending			<u>\$ 175,157</u>	

SHERWOOD MONTESSORI
SUPPLEMENTARY INFORMATION
June 30, 2011

**RECONCILIATION OF ANNUAL FINANCIAL REPORT TO AUDITED
FINANCIAL STATEMENT NET ASSETS**

June 30, 2011 annual financial and budget report net assets	\$	88,632
Adjustments for increase (decrease) in:		
Cash in bank		22,697
Accounts receivable		38,430
Deposits and prepaid assets		11,552
Property, plant and equipment, net		77,142
Accounts payable		(8,355)
Accrued liabilities		(39,920)
Capital lease obligation		(15,021)
		<hr/>
Total adjustments to net assets		86,525
		<hr/>
June 30, 2011, audited financial statement net assets	\$	<u>175,157</u>

SHERWOOD MONTESSORI

SUPPLEMENTARY INFORMATION

June 30, 2011

SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)

For the Year Ended June 30, 2011

<u>Grade level</u>	2010-2011 <u>Annual Report</u>
Kindergarten	15
First through third	30
Fourth through sixth	28
Seventh through eighth	14
Total	<u><u>87</u></u>

*All average daily attendance is generated through classroom-based instruction.

SHERWOOD MONTESSORI

SUPPLEMENTARY INFORMATION

June 30, 2011

SCHEDULE OF INSTRUCTIONAL TIME OFFERED

For the Year Ended June 30, 2011

Grade Level	Minutes Requirement	2010-2011	2010-2011	Status
		Reduced Minutes	Actual Minutes	
Kindergarten	36,000	34,971	36,000	In Compliance
Grade I	50,400	48,960	57,180	In Compliance
Grade 2	50,400	48,960	57,180	In Compliance
Grade 3	50,400	48,960	57,180	In Compliance
Grade 4	54,000	52,457	57,180	In Compliance
Grade 5	54,000	52,457	57,180	In Compliance
Grade 6	54,000	52,457	57,180	In Compliance
Grade 7	54,000	52,457	57,180	In Compliance
Grade 8	54,000	52,457	57,180	In Compliance

SHERWOOD MONTESSORI

**NOTES TO SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2011**

NOTE 1 - PURPOSE OF SCHEDULES:

Reconciliation of Annual Financial Report with Audited Financial Statements Net Assets

This schedule provides the information necessary to reconcile the fund balance as reported on the Charter School Unaudited Actuals Financial Report - Alternative Form to the audited financial statements.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time Offered

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 46200 through 46206.

Schedule of Financial Trends and Analysis (see Budgetary Comparison Schedule)

The 2010/2011 fiscal year is the first year of operation for Sherwood Montessori. As such financial trends and analysis for prior periods is not available.



373 Smile Place
Redding, CA 96001
(530) 229-1301

**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***

Board of Directors
Sherwood Montessori
746 Moss Avenue
Chico, CA 95926

We have audited the financial statements of Sherwood Montessori (the School) as of and for the year ended June 30, 2011 and have issued our report thereon dated December 9, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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***

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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*.

This report is intended solely for the information and use of the, Board of Directors, management of the School, the Chico Unified School District, the Butte County Office of Education, and California Department of Education, and the State Controller's Office and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

J.R. Martin & Associates
December 9, 2011



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REPORT ON STATE COMPLIANCE

Board of Directors
 Sherwood Montessori
 746 Moss Avenue
 Chico, CA 95926

We have audited the financial statements of Sherwood Montessori (a California public charter school), ("the School") as of and for the year ended June 30, 2011, and have issued our report thereon dated December 9, 2011. Our audit was made in accordance with auditing standards generally accepted in the United States of America, the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the 2010-2011 Standards and Procedures for Audits of California K-12 Local Educational Agencies, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The School's management is responsible for the School's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the School compliance with the laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Not applicable
Continuation education	10	Not applicable
Independent study	23	Not applicable

REPORT ON STATE COMPLIANCE

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<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional time:		
School Districts	6	Not applicable
County Offices of Education	3	Not applicable
Class size reduction program:		
General requirements	7	Not applicable
Option 1	3	Not applicable
Option 2	4	Not applicable
One school serving K-3	4	Not applicable
Instructional materials general requirements	8	Not applicable
Ratios of administrative employees to teachers	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive	4	Not applicable
GANN limit calculation	1	Not applicable
School Accountability Report Card	3	Not applicable
Public hearing requirement—receipt of funds	1	Not applicable
After School Education and Safety Program:		
General requirements	4	Not applicable
After school	4	Not applicable
Before school	5	Not applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of Instruction	1	Yes
Nonclassroom instructional/independent study	15	Not applicable
Determination of funding for nonclassroom-based instruction	3	Not applicable
Annual instructional minutes - classroom based	3	Yes

Based on our audit, we found that, for the items tested, the School complied with the laws and regulations of the state programs referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the School had not complied with the laws and regulations of state programs and requirements.

This report is intended solely for the information and use of the Board, management, the Chico Unified School District, the Butte County Office of Education, the California Department of Education, and the State Controller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

J.R. Martin & Associates
December 9, 2011

SHERWOOD MONTESSORI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2011

All audit findings must be identified as one or more of the following eleven categories:

Five Digit Code Finding Types

- 10000 Attendance
- 20000 Inventory of Equipment
- 30000 Internal Control
- 40000 State Compliance
- 41000 CalSTRS
- 50000 Federal Compliance
- 60000 Miscellaneous
- 61000 Classroom Teachers Salaries
- 70000 Instructional Materials
- 71000 Teacher Misalignments
- 72000 School Accountability Report Card

***There were no findings or questioned costs for the year ended June 30, 2011.**

SHERWOOD MONTESSORI

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2010

*Not applicable for the 2009-2010 fiscal year.