

**LAKE WALES CHARTER SCHOOLS, INC.**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORTS THEREON**

**JUNE 30, 2015**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Lake Wales Charter Schools, Inc. (the "Company") presents management's discussion and analysis of the Company's financial performance during the fiscal year ended June 30, 2015. Please read it in conjunction with the Company's financial statements, which follow this section.

Lake Wales Charter Schools, Inc. operates a system of six public charter schools in the Lake Wales, Florida area (Dale R. Fair Babson Park Elementary School, Edward W. Bok Academy, Hillcrest Elementary School, Janie Howard Wilson Elementary School, Lake Wales High School and Polk Avenue Elementary School). The Company provides certain management, administrative, food and transportation services to the charter schools through a Central Administrative Office. Effective July 1, 2011, the Company became its own local educational agency ("LEA").

## CONSOLIDATED FINANCIAL STATEMENTS

The financial statements are presented on a consolidated basis primarily to satisfy the single audit requirements of the U.S. Office of Management and Budget ("OMB") Circular A-133 for the Company's federal programs.

## FINANCIAL HIGHLIGHTS

- The Company's net position improved compared to the prior year (as restated). For the fiscal year ended June 30, 2015, the Company's revenues exceeded expenses by \$1,243,723. This represents an improvement from the prior year when revenues exceeded expenses by \$338,152.
- As described in Note 1 to the financial statements, in 2015, the Company adopted *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, which had a significant effect on the Company's net position.
- Overall, revenues increased by approximately \$1.0 million, which represents a 3% increase from the prior year.
- Overall, expenses increased by approximately \$125,000, which represents a less than 1% increase from the prior year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Company:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Company's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Company, reporting the Company's operations in more detail than the government-wide statements.
  - The *governmental funds* financial statements tell how general services were financed in the short term, as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the following information required by OMB Circular A-133: schedule of expenditures of federal awards and accompanying note, independent auditor's report on compliance for each major program and on internal control over compliance required by OMB Circular A-133 and the schedule of findings and questioned costs. In addition, it includes the 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 following table summarizes the major features of the Company's financial statements, including the portion of the Company they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

	Government-wide Statements	Fund Statements Governmental Funds
Scope	Entire Company	The activities of the Company that are not proprietary or fiduciary
Required financial statements	Statement of net position Statement of activities	Balance sheet – governmental funds Statement of revenues, expenditures and changes in fund balances – governmental funds
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	Only assets/deferred outflows of resources expected to be used up and liabilities/deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

## Government-wide Financial Statements

The government-wide financial statements report information about the Company as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Company's assets and deferred outflows of resources, and its liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the Company's net position and how it has changed. Net position – the difference between the Company's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the Company's financial condition. Over time, increases or decreases in the Company's net position are an indicator of whether its financial condition is improving or deteriorating, respectively. To assess the overall health of the Company, one needs to consider additional non-financial factors such as changes in the student base of the charter schools, the quality of the education provided and the safety of the schools.

The government-wide financial statements of the Company are generally divided into three categories:

- *Governmental activities* – most of the Company's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the Company may charge fees to help it cover the costs of certain services it provides. The Company currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the Company.

## Fund Financial Statements

The fund financial statements provide more detailed information about the Company's most significant funds, not the Company as a whole. A fund is a self-balancing set of accounts which the Company uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law, and the Company may establish other funds to control and manage money for particular purposes, such as for federal grants.

The Company currently has one type of fund:

- *Governmental funds* – most of the Company's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Company's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the differences between them.

## FINANCIAL ANALYSIS OF THE COMPANY AS A WHOLE

### Net Position

The Company's combined net position as of June 30, 2015 and 2014 is summarized as follows – see table below.

	<b>Governmental Activities</b>		<b>Increase</b>
	<b>2014</b>	<b>2015</b>	<b>(Decrease)</b>
	<b>(as restated)</b>		
Current and other assets	\$ 6,672,776	\$ 7,606,017	14%
Capital assets, net	6,084,896	5,698,277	-6%
Deferred outflows of resources	1,077,507	2,141,357	99%
Total assets and deferred outflows	13,835,179	15,445,651	12%
Current and other liabilities	1,806,653	1,961,085	9%
Long-term liabilities	16,941,577	13,077,089	-23%
Deferred inflows of resources	13,568	4,090,373	30047%
Total liabilities and deferred inflows	18,761,798	19,128,547	2%
Net position:			
Net investment in capital assets	896,567	839,258	-6%
Restricted	2,339,846	2,404,613	3%
Unrestricted	(8,163,032)	(6,926,767)	15%
Total net position	\$ (4,926,619)	\$ (3,682,896)	25%

The statement of net position provides the perspective of the Company and its charter schools. The Company ended its fiscal year with a net position of \$(3,682,896) at June 30, 2015. Net investment in capital assets, totaling \$839,258, compares the original cost, less depreciation of the Company's capital assets, to long-term debt used to finance the acquisition of those assets. Restricted net position is reported separately to show legal constraints from debt covenants and legislation that limit the Company's ability to use those assets for day-to-day operations. The \$(6,926,767) in unrestricted net position of governmental activities represent the accumulated results of prior years' operations and the amount of discretionary resources that can be used to fund the Schools' general operations, which includes the effect of adoption of GASB 68 and GASB 71 in fiscal 2015.

Current and other assets totaled \$7,606,017, most of which represents cash and cash equivalents. Since the Company maintains cash deposits on a pooled basis for all of its charter schools, the cash balance increased as a result of an overall operating surplus generated by the charter schools. Net capital assets decreased due to depreciation exceeding capital asset additions. Both deferred outflows of resources and deferred inflows of resources are primarily related to pensions and the adoption of GASB 68 and GASB 71 in fiscal 2015. Current and other liabilities encompass vendor payables and payroll liabilities associated with the end of the fiscal year. Long-term liabilities include long-term debt obligations of the system, employee compensated absences and the net pension liability. The decrease reflects normal scheduled debt payments as detailed in the notes to the financial statements, as well as decreases in the

compensated absences payable and the net pension liability. Federal entitlement funds and prepaid food service revenue are also included in deferred inflows of resources.

Effective July 1, 2014, as a participant in the Florida Retirement System (“FRS”) and the Retiree Health Insurance Subsidy (“HIS”) programs, the net position table includes the School's pro rata share of the FRS and HIS net pension liability as of June 30, 2015 and 2014. As a result, certain reclassifications were made in the 2014 amounts to conform to their classifications in fiscal year 2015.

### Change in Net Position

The Company's total revenues increased by 3% to \$33,986,053, and the total cost of all programs and services increased by less than 1% to \$32,742,330 – see table below.

	<b>Governmental Activities</b>		<b>Increase</b>
	<b>2014</b>	<b>2015</b>	<b>(Decrease)</b>
Revenues:			
Federal sources	\$ 4,397,300	\$ 4,895,367	11%
State and local sources	25,805,941	26,592,964	3%
Contributions and other revenue	2,752,312	2,497,722	-9%
Total revenues	32,955,553	33,986,053	3%
Expenses:			
Instruction	18,013,160	18,192,412	1%
Pupil personnel services	963,133	920,989	-4%
Instructional media	306,274	236,544	-23%
Instruction and curriculum development	1,106,746	1,141,914	3%
Instructional staff training	361,630	278,507	-23%
Instructional-related technology	376,836	458,756	22%
Board	115,205	110,186	-4%
General administration	514,963	608,017	18%
School administration	3,144,359	3,253,294	3%
Facilities acquisition and construction	337,192	223,749	-34%
Fiscal services	386,625	384,025	-1%
Food services	2,210,120	2,195,882	-1%
Central services	129,395	238,661	84%
Pupil transportation	1,716,730	1,663,333	-3%
Operation of plant	2,324,452	2,237,151	-4%
Administrative technology services	31,206	29,366	-6%
Community services	324,411	389,635	20%
Interest	254,964	179,909	-29%
Total expenses	32,617,401	32,742,330	0%
Change in net position	\$ 338,152	\$ 1,243,723	268%

The majority of the Company's revenue is provided through the State's FEFP, State categorical educational programs and local property taxes (78.2% of the Company's total governmental revenues) to fund current operations. The Company received approximately 14.4% of its total revenues in federal sources – a combination of federal entitlement revenues, National School Lunch Program and E-rate funding in fiscal 2015. The remaining portion of the Company's revenue (7.2%) is the result of contributions, program revenue and the Schools' internal account activity.

Instruction and instruction-related activities, representing 66.7% of the Company's expenses, were impacted by the enrollment increases and pupil funding changes, and increased approximately 1.0% in 2015 with expenditure shifts among the instruction-based functional categories. The remaining cost portion of government-wide activity representing the board, general and administrative support services, finance, food service, transportation, operation of plant and debt service accounted for 33.3% of total costs. These administrative and business activities remained stable compared to last year with an increase of less than 1.0%. Overall, total governmental revenues exceeded total costs during 2015 resulting in a net position change of \$1,243,723 as a result of ongoing operations.

## **FINANCIAL ANALYSIS OF THE COMPANY'S FUNDS**

As the Company completed the year, its governmental funds reported a combined fund balance of \$5,635,043, which is an increase from the prior year. Both revenues and expenditures increased overall during fiscal 2015 for the same reasons described above.

### **General and Special Revenue Fund Budgetary Highlights**

Over the course of the year, the Company revises the budget as it attempts to deal with unexpected changes in revenue and expenditures. The general fund budget amendments were performed primarily to reflect revised student enrollment and student funding throughout the year. To accurately appropriate federal grant funding, the Company maintains a portion of special revenue funding for redistribution until the schools revise their budget during the fiscal year.

For the year ended June 30, 2015, actual general fund revenues were approximately \$671,000 above the budgeted amounts, primarily due to internal account revenues of student groups and organizations which are not budgeted and increased enrollment for instructional and transportation FEFP generated funding. Actual general fund expenditures were approximately \$31,000 below the budgeted amounts, which represents an approximate budget variance of less than 1%.

For the year ended June 30, 2015, actual special revenue fund revenues were approximately \$59,000 below the budgeted amounts, which represents a 1% budget variance. Actual special revenue fund expenditures were approximately \$66,000 below budgeted amounts, which represents a 1% budget variance.



## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal 2015, the Company had invested \$11,546,955 in a broad range of capital assets, including land, improvements, buildings, computers, motor vehicles, software and other electronic equipment (see table below).

	Governmental Activities		Increase (Decrease)
	2014	2015	
Land	\$ 707,882	\$ 707,882	0%
Improvements other than buildings	258,252	369,345	43%
Buildings	4,406,080	4,406,080	0%
Furniture, fixtures and equipment	3,553,008	3,714,735	5%
Motor vehicles	1,740,004	1,752,356	1%
Computer software	558,783	596,557	7%
Total capital assets	<u>\$ 11,224,009</u>	<u>\$ 11,546,955</u>	<u>3%</u>

This year's major capital asset additions included the following:

- Building renovations - \$111,093
- Computers and networking equipment - \$85,100
- Cameras and projectors - \$24,748
- Motor vehicles - \$18,052

The Company's fiscal year 2016 capital budget does not include significant spending related to capital projects. More detailed information about the Company's capital assets is presented in Note 3 to the financial statements.

### Long-Term Debt

As of June 30, 2015, the Company had \$4,859,019 in borrowings outstanding, as compared to \$5,244,040 in the prior year. The decrease in long-term debt is primarily due to principal payments made on the outstanding notes payable. Interest expense related to these borrowings totaled \$179,909 for the year ended June 30, 2015. More detailed information about the Company's long-term debt is presented in Note 4 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following economic indicators were taken into account when adopting the general fund budget for fiscal year 2016:

- State educational funding per pupil
- Cost of goods and services
- Competitive employee compensation

Amounts available for appropriation in the general fund are \$27,826,575, a decrease of 3% from the actual 2015 amount of \$28,795,206. One of the most important factors affecting the budget is the blended student count. The blended count for the 2016 fiscal year is 50 percent of the October 2015 and February 2016 student counts. The 2016 budget adopted in June 2015 was based on 12 additional students than the blended count recorded in 2015. The elimination of nonrecurring revenue, donations and internal account activity, out-weigh the projected additional students and the projected flat state funding per pupil to account for the estimated decrease in the Company's operating revenue.

Budgeted general fund expenditures are expected to decrease to \$27,826,575, or less than 1%, from the fiscal 2015 actual figure of \$28,100,587. The Company has added no major new programs within the charter schools to the fiscal 2016 budget and existing instructional programs are aligned with the anticipated student enrollment along with the elimination of one-time expenditures.

If these estimates are realized, the Company's general fund balance is expected to remain the same by the close of fiscal 2016.

### **CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide interested parties with a general overview of the Company's finances and to demonstrate the Company's accountability for the money it receives. Should additional information be required, please contact the Company's administrative offices at 130 East Central Avenue, Lake Wales, Florida 33853.

## **Independent Auditor's Report on Basic Financial Statements and Supplementary Information**

To the Board of Trustees of Lake Wales Charter Schools, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Lake Wales Charter Schools, Inc. (the "Company") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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 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 opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lake Wales Charter Schools, Inc. as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Note 1 to the financial statements, in 2015, the Company adopted *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 – 8, the budgetary comparison information on pages 36 – 37 and the pension information on pages 38 – 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Company's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain

additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic 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 November 19, 2015 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

*BKHM, P.A.*

Winter Park, Florida  
November 19, 2015

**LAKE WALES CHARTER SCHOOLS, INC.**

**STATEMENT OF NET POSITION**

**JUNE 30, 2015**

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 4,598,626
Restricted cash	2,002,659
Accounts receivable	794,279
Prepaid expenses and other current assets	210,453
Capital assets:	
Land	707,882
Improvements other than buildings	369,345
Buildings	4,406,080
Furniture, fixtures and equipment	3,714,735
Motor vehicles	1,752,356
Computer software	596,557
Less accumulated depreciation	(5,848,678)
Total capital assets, net	<u>5,698,277</u>
Total assets	<u>13,304,294</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related deferred outflows of resources	<u>2,141,357</u>
Total assets and deferred outflows of resources	<u><u>\$ 15,445,651</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 1,961,085
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences payable	771,258
Notes payable	408,932
Portion due or payable after one year:	
Notes payable	4,450,087
Net pension liability	7,446,812
Total liabilities	<u>15,038,174</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred revenue	9,889
Pension related deferred inflows of resources	<u>4,080,484</u>
Total deferred inflows of resources	<u>4,090,373</u>
<b>NET POSITION</b>	
Net investment in capital assets	839,258
Restricted for:	
Food service	401,954
Certificate of deposit serving as collateral for note payable	2,002,659
Unrestricted	<u>(6,926,767)</u>
Total net position	<u>(3,682,896)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 15,445,651</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**LAKE WALES CHARTER SCHOOLS, INC.**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2015**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Instruction	\$ 18,192,412	\$ -	\$ 1,395,032	\$ -	\$(16,797,380)	\$(16,797,380)
Pupil personnel services	920,989	-	123,018	-	(797,971)	(797,971)
Instructional media	236,544	-	-	-	(236,544)	(236,544)
Instruction and curriculum development	1,141,914	-	1,018,036	-	(123,878)	(123,878)
Instructional staff training	278,507	-	58,172	-	(220,335)	(220,335)
Instructional-related technology	458,756	-	-	-	(458,756)	(458,756)
Board	110,186	-	-	-	(110,186)	(110,186)
General administration	608,017	-	59,262	-	(548,755)	(548,755)
School administration	3,253,294	-	20,880	-	(3,232,414)	(3,232,414)
Facilities acquisition and construction	223,749	-	-	-	(223,749)	(223,749)
Fiscal services	384,025	-	-	-	(384,025)	(384,025)
Food services	2,195,882	262,020	2,100,403	-	166,541	166,541
Central services	238,661	-	-	-	(238,661)	(238,661)
Pupil transportation	1,663,333	-	5,709	-	(1,657,624)	(1,657,624)
Operation of plant	2,237,151	-	-	-	(2,237,151)	(2,237,151)
Administrative technology services	29,366	-	-	-	(29,366)	(29,366)
Community services	389,635	-	27,944	-	(361,691)	(361,691)
Interest	179,909	-	-	-	(179,909)	(179,909)
Total primary government	<u>\$ 32,742,330</u>	<u>\$ 262,020</u>	<u>\$ 4,808,456</u>	<u>\$ -</u>	<u>(27,671,854)</u>	<u>(27,671,854)</u>
General revenues:						
Federal sources					86,911	86,911
State and local sources					26,592,964	26,592,964
Contributions and other revenue					2,235,702	2,235,702
Total general revenues					<u>28,915,577</u>	<u>28,915,577</u>
Change in net position					<u>1,243,723</u>	<u>1,243,723</u>
Net position at beginning of year, as previously reported					4,969,270	4,969,270
Prior period adjustment (see Note 1)					<u>(9,895,889)</u>	<u>(9,895,889)</u>
Net position at beginning of year, as restated					<u>(4,926,619)</u>	<u>(4,926,619)</u>
Net position at end of year					<u>\$ (3,682,896)</u>	<u>\$ (3,682,896)</u>

The accompanying notes to financial statements are an integral part of this statement.

**LAKE WALES CHARTER SCHOOLS, INC.**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2015**

	General Fund	Special Revenue Fund	Total Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,598,626	\$ -	\$ 4,598,626
Restricted cash	2,002,659	-	2,002,659
Accounts receivable	374,246	420,033	794,279
Prepaid expenses and other current assets	210,453	-	210,453
Due from general fund	-	94,516	94,516
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u><u>\$ 7,185,984</u></u>	<u><u>\$ 514,549</u></u>	<u><u>\$ 7,700,533</u></u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenditures	\$ 1,858,379	\$ 102,706	\$ 1,961,085
Due to special revenue fund	94,516	-	94,516
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>1,952,895</u>	<u>102,706</u>	<u>2,055,601</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenue	-	9,889	9,889
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>FUND BALANCES</b>			
Fund balances:			
Nonspendable:			
Prepaid expenses and other current assets	210,453	-	210,453
Restricted for:			
Food service	-	401,954	401,954
Certificate of deposit serving as collateral for note payable	2,002,659	-	2,002,659
Committed to:			
Performance/merit pay supplement program	74,630	-	74,630
Assigned to:			
School-based student activity organizations	268,421	-	268,421
Unassigned	2,676,926	-	2,676,926
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>5,233,089</u>	<u>401,954</u>	<u>5,635,043</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities, deferred inflows of resources and fund balances	<u><u>\$ 7,185,984</u></u>	<u><u>\$ 514,549</u></u>	<u><u>\$ 7,700,533</u></u>

The accompanying notes to financial statements are an integral part of this statement.



**LAKE WALES CHARTER SCHOOLS, INC.**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

**JUNE 30, 2015**

<b>Total fund balances - governmental funds</b>	\$	5,635,043
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$11,546,955, and the accumulated depreciation is \$5,848,678.		5,698,277
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Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(771,258)
---	--	-----------

The following pension related balances do not use current resources or are not due and payable in the current period and, therefore, are not reported in the governmental funds:

Pension related deferred outflows of resources		2,141,357
Net pension liability		(7,446,812)
Pension related deferred inflows of resources		(4,080,484)

Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Notes payable		(4,859,019)
<b>Total net position - governmental activities</b>	<b>\$</b>	<b>(3,682,896)</b>

The accompanying notes to financial statements are an integral part of this statement.

**LAKE WALES CHARTER SCHOOLS, INC.**

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2015**

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>REVENUES</b>			
Federal sources	\$ -	\$ 4,895,367	\$ 4,895,367
State and local sources	26,560,346	32,618	26,592,964
Contributions and other revenue	2,234,860	262,862	2,497,722
Total revenues	<u>28,795,206</u>	<u>5,190,847</u>	<u>33,986,053</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	17,007,532	1,395,032	18,402,564
Pupil personnel services	801,320	123,018	924,338
Instructional media	235,354	-	235,354
Instruction and curriculum development	112,547	1,018,036	1,130,583
Instructional staff training	219,319	58,172	277,491
Instructional-related technology	435,394	-	435,394
Board	110,186	-	110,186
General administration	460,448	162,128	622,576
School administration	3,274,640	20,880	3,295,520
Facilities acquisition and construction	14,349	-	14,349
Fiscal services	361,297	16,761	378,058
Food services	-	2,190,776	2,190,776
Central services	235,268	-	235,268
Pupil transportation	1,435,783	5,709	1,441,492
Operation of plant	2,203,778	-	2,203,778
Administrative technology services	27,156	-	27,156
Community services	357,162	27,944	385,106
Debt service:			
Principal	387,410	-	387,410
Interest	179,909	-	179,909
Capital outlay	241,735	86,911	328,646
Total expenditures	<u>28,100,587</u>	<u>5,105,367</u>	<u>33,205,954</u>
Excess of revenues over expenditures	<u>694,619</u>	<u>85,480</u>	<u>780,099</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from notes payable	254,000	-	254,000
Payoff of notes payable	(251,611)	-	(251,611)
Operating transfer in	22,714	-	22,714
Operating transfer out	-	(22,714)	(22,714)
Total other financing sources (uses)	<u>25,103</u>	<u>(22,714)</u>	<u>2,389</u>
Net changes in fund balances	719,722	62,766	782,488
Fund balances at beginning of year	4,513,367	339,188	4,852,555
Fund balances at end of year	<u>\$ 5,233,089</u>	<u>\$ 401,954</u>	<u>\$ 5,635,043</u>

The accompanying notes to financial statements are an integral part of this statement.

**LAKE WALES CHARTER SCHOOLS, INC.**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2015**

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 782,488</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$715,265) exceeds capital outlays (\$328,646) in the current period.	(386,619)
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Governmental funds report deferred loan costs paid as expenditures. However, in the statement of activities, the cost of those assets is allocated over the loan term and reported as amortization expense. This is the amount of amortization expense in the current period.	(55,711)
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Compensated absences included in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	8,594
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Pension income or expense resulting from GASB 68 included in the statement of activities does not provide or require the use of current financial resources and, therefore, is not reported as a net change in fund balances in the governmental funds.	509,950
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Repayments of long-term liabilities are reported as expenditures in the governmental funds because they require the use of current financial resources. They are reported as a reduction in long-term liabilities in the statement of net position. This amount represents the current year repayment of principal on long-term debt.	387,410
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Proceeds from and payoffs of long-term debt are reported as other financing sources (uses) in the governmental funds because they represent an increase or decrease in current financial resources. They are reported as an increase or decrease in long-term liabilities in the statement of net assets. These amounts represent the current year borrowings and repayments under long-term liabilities:

Proceeds from notes payable	(254,000)
Payoff of notes payable	251,611
	<hr/>
<b>Change in net position of governmental activities</b>	<b>\$ 1,243,723</b>
	<hr/>

The accompanying notes to financial statements are an integral part of this statement.

# **LAKE WALES CHARTER SCHOOLS, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

### **1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Organization**

Lake Wales Charter Schools, Inc. (the "Company") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes. The Company operates a system of six public charter schools in the Lake Wales, Florida area (Dale R. Fair Babson Park Elementary School, Edward W. Bok Academy, Hillcrest Elementary School, Janie Howard Wilson Elementary School, Lake Wales High School and Polk Avenue Elementary School) (collectively, the "Charter Schools"). The Company provides certain management and administrative services to the Charter Schools through a Central Administrative Office. The governing body of the Company is the not-for-profit corporation Board of Trustees, which is composed of no less than three and no more than nine members. Effective July 1, 2004, the Charter Schools (except Edward W. Bok Academy) converted from traditional public schools to public charter schools. Edward W. Bok Academy (the "Academy") commenced formal operations on July 1, 2008. Effective July 1, 2011, the Company became its own local educational agency ("LEA").

The general operating authority of the Charter Schools is contained in Section 1002.33, Florida Statutes. The Charter Schools operate under charters of the sponsoring school district, the District School Board of Polk County, Florida (the "School Board"). The current charters are effective until the following dates:

<b><u>School</u></b>	<b><u>Date</u></b>
Janie Howard Wilson Elementary School, Lake Wales High School and Polk Avenue Elementary School	June 30, 2023
Edward W. Bok Academy	June 30, 2027
Dale R. Fair Babson Park Elementary School and Hillcrest Elementary School	June 30, 2028

The charters may be renewed by mutual written agreement between the Charter Schools and the School Board. At the end of the term of the charters, the School Board may choose not to renew the respective charters under grounds specified in the respective charter agreements. In this case, the School Board is required to notify the Charter Schools in writing at least 90 days prior to the charters' expiration. During the term of the charters, the School Board may also terminate the charters if good cause is shown. In the event of termination of the charters, any property purchased by the Charter Schools with public funds and any unencumbered public funds, except capital outlay funds, revert back to the School Board. Any unencumbered capital outlay funds revert back to the Florida Department of Education to be redistributed among eligible charter schools.

## LAKE WALES CHARTER SCHOOLS, INC.

### NOTES TO FINANCIAL STATEMENTS (continued)

The Charter Schools are considered component units of the School Board and meet the definition of governmental entities under the Governmental Accounting Standards Board ("GASB") accounting guidance; therefore, for financial reporting purposes, the Charter Schools are required to follow generally accepted accounting principles applicable to state and local governmental units. The Company has also elected this same form of financial reporting. The Company is not considered a component unit of the School Board since it became its own LEA.

Criteria for determining if other entities are potential component units of the Company which should be reported with the Company's basic financial statements are identified and described in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The application of these criteria provides for identification of any entities for which the Company is financially accountable and other organizations for which the nature and significance of their relationship with the Company are such that exclusion would cause the Company's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the Company.

#### **Basis of presentation**

The Company's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB. Accordingly, both government-wide and fund financial statements are presented.

The government-wide financial statements report information about the Company as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Company's assets and deferred outflows of resources, and its liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide financial statements of the Company are generally divided into three categories:

- *Governmental activities* – most of the Company's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the Company may charge fees to help it cover the costs of certain services it provides. The Company currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the Company.

The fund financial statements provide more detailed information about the Company's most significant funds, not the Company as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

## LAKE WALES CHARTER SCHOOLS, INC.

### NOTES TO FINANCIAL STATEMENTS (continued)

The funds in the financial statements of this report are as follows:

#### Governmental Funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund.
- Special Revenue Fund – to account for the proceeds of specific revenue sources and federal grants that are restricted by law or administrative action to expenditure for specific purposes.

For purposes of these statements, the general and special revenue funds constitute major funds. There are no other governmental funds.

#### Basis of accounting

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented using the accrual basis of accounting and an economic resources focus. Under the accrual basis of accounting, revenues and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Company considers revenues to be available if they are collected within sixty days of the end of the fiscal year. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) interest on general long-term debt is recognized when due and (2) expenditures related to liabilities reported as general long-term debt are recognized when due.

#### Budgetary basis accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the fund level.

#### Recently adopted accounting standards

During 2015, the Company adopted *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, which revised and established new financial reporting requirements for most governments that provide their employees with pension benefits. The effect of this change was to increase 2015 income by \$509,950.

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

The statement of net position for 2014 has been retroactively restated for the change as follows:

	<b>Deferred Outflows of Resources</b>	<b>Net Pension Liability</b>	<b>Net Position</b>
Balance at June 30, 2014, as previously reported	\$ -	\$ -	\$ 4,969,270
Restatement of beginning balance - Adoption of GASB 68			
Florida Retirement System (FRS)	834,089	6,359,954	(5,525,865)
Retiree Health Insurance Subsidy (HIS) Program	<u>187,707</u>	<u>4,557,731</u>	<u>(4,370,024)</u>
Balance at June 30, 2014, as restated	<u>\$ 1,021,796</u>	<u>\$ 10,917,685</u>	<u>\$ (4,926,619)</u>

**Deposits and investments**

During the year ended June 30, 2015, the Company maintained cash deposits on a pooled basis for all of the Charter Schools. Cash deposits are generally held by banks qualified as public depositories under Florida law. All deposits held by qualified public depositories are insured by federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The Company's cash consists primarily of demand deposits with financial institutions.

The Company's restricted cash consists of a certificate of deposit with a financial institution, which serves as collateral for the mortgage note payable described in Note 4. This certificate of deposit is held by a qualified public depository, insured by federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

**Capital assets and depreciation**

Expenditures for capital assets acquired for general Company purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation, in the government-wide financial statements. Donated assets are recorded at fair value at the date of donation.

## **LAKE WALES CHARTER SCHOOLS, INC.**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<b><u>Years</u></b>
Improvements other than buildings	5 - 20
Buildings	30
Furniture, fixtures and equipment	3 - 7
Motor vehicles	3 - 7
Computer software	3

Information relative to changes in capital assets is described in Note 3.

#### **Long-term debt**

Long-term obligations that will be financed by resources to be received in the future by the general fund are reported in the government-wide financial statements, not in the general fund. Information relative to changes in long-term debt is described in Note 4.

#### **Compensated absences**

Compensated absences (i.e. paid absences for employee vacation leave and sick leave) are recorded as expenditures in the governmental funds when leave is used or when accrued as payable to employees entitled to cash payment in lieu of taking leave. In the government-wide financial statements, compensated absences are recorded as expenses when earned by the employees. The liability for compensated absences is classified as a long-term liability that is due within one year in the government-wide financial statements because the amount of vacation and sick time to be used after the following year cannot be reasonably estimated.

#### **Revenue sources**

Revenues for current operations are received primarily from the School Board pursuant to the funding provisions included in the Charter Schools' charters. As such, the Charter Schools' revenue streams are largely dependent upon the general state of the economy and the amounts allotted to the Florida Department of Education ("FDOE") by the state legislature. In accordance with the funding provisions of the charters and Section 1002.33(18), Florida Statutes, the Charter Schools report the number of full-time equivalent students and related data to the School Board.

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the FDOE for funding through the FEFP. Funding for the Charter Schools is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the Charter Schools during the designated full-time equivalent student survey periods. The School Board receives a 5% administrative fee from the Charter Schools, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds. This administrative



## **LAKE WALES CHARTER SCHOOLS, INC.**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

fee is calculated on the FEFP revenue up to 500 students within the system. The difference between the actual fee and the fee as calculated on total FEFP revenue is restricted for instructional and administrative purposes, as well as for capital outlay expenditures.

The Company receives federal awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. For federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

The Academy is eligible for charter school capital outlay funding. The amounts received under this program are based on the Academy's actual and projected student enrollment during the fiscal year. Funds received under this program may only be used for lawful capital outlay expenditures and, as such, any unexpended amounts are reflected as restricted net assets and restricted fund balance in the accompanying statement of net position and balance sheet – governmental funds.

#### **Income taxes**

The Company is an organization exempt from income taxation under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for federal income taxes is included in the accompanying financial statements.

The Company has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

The Company assesses its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the Company believes it is "more likely than not" that its tax positions will be sustained upon an examination by the Internal Revenue Service ("IRS") or the applicable state taxing authority. Accordingly, there is no provision for federal income taxes in the Company's financial statements, as the Company believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS audit. State income taxes, which may be due in certain jurisdictions, have been assessed following the same "more likely than not" measurement threshold. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2011.

## **LAKE WALES CHARTER SCHOOLS, INC.**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

#### **Fund balance spending policy**

The Company has adopted guidance issued by the GASB that establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which an entity is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The Company's adopted spending policy is to spend from restricted fund balance first, followed by committed, assigned, then the unassigned fund balance. The Board of Trustees reviews the amounts in the fund balances in conjunction with the annual budget approval and makes adjustments as necessary to meet expected cash flow needs. Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. If expenditures are incurred that meet the purpose of more than one fund, they will be allocated to restricted fund balance first and then follow the order above. Funds can only be committed by formal action of the Board of Trustees. The Board of Trustees has delegated authority to assign funds to the Superintendent and Chief Financial Officer of the Company.

The Charter Schools are individually required by the School Board to maintain an unassigned general fund balance equal to at least 3% of general fund revenues. The Company has an internal fund balance policy to maintain an unassigned general fund balance equal to not less than 10% of budgeted general fund revenues as of June 30<sup>th</sup> of each year for the Charter Schools as a whole. In addition, the Company's internal fund balance policy requires that each charter school maintain an unassigned general fund balance equal to a minimum of 5% of budgeted general fund revenues - 3% to meet the School Board's requirement and 2% to provide for sufficient cash flow for fiscal stability. There are no minimum fund balance requirements for any of the Company's other funds.

#### **Use of estimates**

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources as of the date of the balance sheet and affect revenues and expenditures for the period presented. Actual results could differ significantly from those estimates.

#### **Subsequent events**

The Company has adopted guidance that requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The Company has evaluated subsequent events through November 19, 2015, which is the date the financial statements were available to be issued.

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**2      ACCOUNTS RECEIVABLE**

Accounts receivable included in the accompanying financial statements include \$794,279 in funds receivable from the Lake Wales Charter Schools Foundation and from federal and state agencies under various grants, as follows:

E-Rate Program	\$      320,866
Title I Grants to Local Educational Agencies	207,352
Special Education – Grants to States (IDEA, Part B)	127,357
Lake Wales Charter School Foundation	18,828
Title V, Higher Education Institutional Aid Grant	18,104
Title III, English Language Acquisition State Grant	17,714
Advancing Wellness and Resilience Education (AWARE) Grant	13,398
Reserve Officer Training Corps (ROTC)	10,720
Summer Food Service Program	10,620
Career and Technical Education – Basic Grants to States (Perkins IV)	8,169
Title II, Improving Teacher Quality State Grant	5,869
Title X, Education for Homeless Children and Youth	440
Other	<u>34,842</u>
Total	<u>\$      794,279</u>

Based on collectibility of funds from these sources, the Company believes that an allowance for doubtful accounts is not considered necessary.

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**3 CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 707,882	\$ -	\$ -	\$ 707,882
Total capital assets not being depreciated at historical cost	<u>707,882</u>	<u>-</u>	<u>-</u>	<u>707,882</u>
Other capital assets:				
Improvements other than buildings	258,252	111,093	-	369,345
Buildings	4,406,080	-	-	4,406,080
Furniture, fixtures and equipment	3,515,234	199,501	-	3,714,735
Motor vehicles	1,740,004	18,052	(5,700)	1,752,356
Computer software	<u>596,557</u>	<u>-</u>	<u>-</u>	<u>596,557</u>
Total other capital assets at historical cost	<u>10,516,127</u>	<u>328,646</u>	<u>(5,700)</u>	<u>10,839,073</u>
Less accumulated depreciation for:				
Improvements other than buildings	(14,646)	(25,078)	-	(39,724)
Buildings	(824,063)	(132,529)	-	(956,592)
Furniture, fixtures and equipment	(3,141,277)	(233,582)	-	(3,374,859)
Motor vehicles	(663,989)	(246,111)	5,700	(904,400)
Computer software	<u>(495,138)</u>	<u>(77,965)</u>	<u>-</u>	<u>(573,103)</u>
Total accumulated depreciation	<u>(5,139,113)</u>	<u>(715,265)</u>	<u>5,700</u>	<u>(5,848,678)</u>
Other capital assets, net	<u>5,377,014</u>	<u>(386,619)</u>	<u>-</u>	<u>4,990,395</u>
Governmental activities capital assets, net	<u>\$ 6,084,896</u>	<u>\$ (386,619)</u>	<u>\$ -</u>	<u>\$ 5,698,277</u>

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 258,308
Pupil personnel services	1,103
Instructional media	1,862
Instruction and curriculum development	4,617
Instructional staff training	108
Instructional-related technology	23,362
General administration	854
School administration	8,059
Facilities acquisition and construction	153,689
Fiscal services	499
Food services	5,106
Central services	779
Pupil transportation	214,926
Operation of plant	35,254
Administrative technology services	2,210
Community services	4,529
	<hr/>
Total governmental activities depreciation expense	\$ 715,265

**4 LONG-TERM DEBT**

Long-term debt consists of the following as of June 30, 2015:

Mortgage note payable to a financial institution; principal and interest of \$23,500 due monthly at 2.95%; interest rate will be adjusted in 2024 and 2029 to the FHLB 7 year Principal Reducing Credit ("PRC") rate plus 1.13%; maturity date of April 2033; secured by a first mortgage on the Edward W. Bok Academy school facility; all furniture, fixtures and equipment of the Company and the Charter Schools; and a \$2,000,000 certificate of deposit.	\$ 3,878,618
Note payable to a finance company; principal and interest of \$21,006 due monthly at 5.45%; maturity date of August 2018; secured by sixteen school buses.	731,608
Mortgage note payable to a financial institution; principal and interest of \$2,557 due monthly at 3.82% with a balloon payment due at maturity; maturity date of March 2025; secured by a first mortgage on the central administration building and related furniture, fixtures and equipment.	<hr/> 248,793
Total long-term debt	4,859,019
Less amount due or payable within one year	<hr/> (408,932)
Amount due or payable after one year	<hr/> \$ 4,450,087

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

In connection with the \$3,878,618 mortgage note payable described above, in January 2014, the Company entered into a Memorandum of Agreement with the City of Lake Wales, Florida (the "Issuer"). Under the agreement, the Issuer declared its intention to issue and sell its City of Lake Wales – Industrial Development Revenue Bonds, Series 2014 (the "Bonds") for the purpose of refinancing the outstanding portion of the mortgage loan dated June 24, 2008 related to the Edward W. Bok Academy school facility and to pay for costs associated with the issuance of the Bonds. The Bonds were privately placed with Citizens Bank & Trust (the "Lender") and do not constitute a debt, liability or obligation of the Issuer, Polk County, Florida or of the State of Florida or of any other political subdivision. The Company agreed to pay all fees and expenses of the Issuer and the Lender in connection with the issuance and sale of the Bonds.

The loan agreement for the \$3,878,618 mortgage note payable described above contains certain covenants with which the Company must comply. As of June 30, 2015, the Company was in compliance with all restrictive covenants.

Long-term debt activity during the current fiscal year was as follows:

Balance outstanding at beginning of year	\$ 5,244,040
Additions	254,000
Reductions	<u>(639,021)</u>
Balance outstanding at end of year	<u>\$ 4,859,019</u>
Amount due within one year	<u>\$ 408,932</u>

Future debt service requirements related to long-term debt are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 408,932	\$ 155,814	\$ 564,746
2017	427,007	137,740	564,747
2018	445,944	118,803	564,747
2019	251,390	103,301	354,691
2020	216,149	96,531	312,680
2021 - 2025	1,176,718	378,086	1,554,804
2026 - 2030	1,210,172	199,828	1,410,000
2031 - 2033	<u>722,707</u>	<u>29,869</u>	<u>752,576</u>
Total	<u>\$ 4,859,019</u>	<u>\$ 1,219,972</u>	<u>\$ 6,078,991</u>

Interest paid during the year ended June 30, 2015 totaled approximately \$180,000.

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**5 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES**

The following is a schedule of state and local revenue sources and amounts:

District School Board of Polk County, Florida:	
Florida Education Finance Program	\$ 16,958,855
Class size reduction	4,475,231
Supplemental academic instruction	944,295
Discretionary millage funds	824,905
Discretionary tax equalization funds	812,034
ESE guaranteed allocation	809,555
Transportation	746,249
Instructional materials	318,087
Capital outlay	197,081
School recognition	169,431
Advance placement bonus	91,874
Safe schools	79,941
Teacher lead pay	62,660
Digital classroom allocation	43,404
National School Lunch Program state match allocation	32,618
Discretionary lottery funds	14,177
Dual enrollment	11,772
Other state revenue	<u>795</u>
Total	<u><u>\$ 26,592,964</u></u>

The administration fee paid to the School Board during the year ended June 30, 2015 totaled approximately \$158,000, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

**6 RISK MANAGEMENT PROGRAM**

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not historically exceeded commercial coverage.

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**7 COMMITMENTS AND CONTINGENT LIABILITIES**

**Grants**

The Company participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Company has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of June 30, 2015 may be impaired.

In the opinion of the Company, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Legal matters**

In the normal course of conducting its operations, the Company occasionally becomes party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

**Operating lease commitments**

The Company leases several buses and portable classrooms under non-cancelable operating leases for purposes of providing transportation and instruction services. The leases require the Company to pay insurance and other costs. One bus lease expired in August 2015 and was not renewed, another bus lease expires in July 2019, and the portable classrooms lease expires in August 2017.

Aggregate remaining minimum rental commitments as of June 30, 2015 under these leases are summarized as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 169,520
2017	140,960
2018	138,580
2019	<u>11,548</u>
Total	<u>\$ 460,608</u>

Lease payments were approximately \$168,000 for the year ended June 30, 2015. Of this amount, approximately \$139,000 is included in pupil transportation and approximately \$29,000 is included in operation of plant in the accompanying financial statements.



## LAKE WALES CHARTER SCHOOLS, INC.

### NOTES TO FINANCIAL STATEMENTS (continued)

#### 8 PENSION PLANS

##### Pension plan descriptions

The Florida Department of Management Services, Division of Retirement ("Division"), is part of the primary government of the State of Florida and is responsible for administering the Florida Retirement System Pension Plan and Other State-Administered Systems ("System"). The Company participates in two defined benefit plans administered by the Division. Beginning with the fiscal year ended June 30, 2014, the Division issued a publicly-available, audited comprehensive annual financial report ("CAFR") on behalf of the System that includes financial statements, notes and required supplementary information for each of the pension plans. Detailed information about the plans is provided in the CAFR which is available online at [www.dms.myflorida.com/workforce\\_operations/retirement/publications](http://www.dms.myflorida.com/workforce_operations/retirement/publications).

The Florida Retirement System ("FRS") Pension Plan is a cost-sharing, multiple-employer qualified defined benefit pension plan with a Deferred Retirement Option Program ("DROP") available for eligible employees. The FRS was established and is administered in accordance with Chapter 121, Florida Statutes. Retirees receive a lifetime pension benefit with joint and survivor payment options. FRS membership is compulsory for employees filling regularly established positions in a state agency, county agency, state university, state community college, or district school board, unless restricted from FRS membership under sections 121.053 and 121.122, Florida Statutes, or allowed to participate in a defined contribution plan in lieu of FRS membership. Participation by cities, municipalities, special districts, charter schools and metropolitan planning organizations is optional.

The Retiree Health Insurance Subsidy ("HIS") Program is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. For the fiscal year ended June 30, 2014, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which can include Medicare.

Employee contributions required pursuant to section 121.71(3), Florida Statutes, are accounted for by the FRS as employer-paid employee contributions and are treated as employer contributions under 26 U.S.C. s. 414(h)(2) allowing these contributions to be deducted on a pre-tax basis. Pension expense reported by the Company does not include these amounts. Total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

Employer contributions reflected in the financial statements represent contributions to the defined benefit plans and do not equal total blended contributions remitted by the employer.

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

Contribution rates were as follows:

<u>Class or Plan</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (A)</u>
Florida Retirement System, Regular	3%	7.37%
Florida Retirement System, Reemployed Retiree	(B)	(B)

(A) Employer rates include 1.26% for the Retiree Health Insurance Subsidy and 0.04% for administration of the Florida Retirement System Investment Plan and provision of educational tools for both plans, and any applicable unfunded actuarial liability rates.

(B) Contribution rates are dependent upon the retirement class in which reemployed.

**Information about the employer's proportionate share of the collective net pension liability**

Assumptions and other inputs

Actuarial assumptions for both defined benefit plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS Pension Plan has a valuation performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008, through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for this program.

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation as of July 1, 2014, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.65%. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 4.29% was used to determine the total pension liability for the program. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables.

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

The following changes in actuarial assumptions occurred in 2014:

- FRS: As of June 30, 2014, the inflation rate assumption was decreased from 3.00% to 2.60%, the real payroll growth assumption was decreased from 1.00% to 0.65%, and the overall payroll growth rate assumption was decreased from 4.00% to 3.25%. The long-term expected rate of return decreased from 7.75% to 7.65%.
- HIS: The municipal rate used to determine total pension liability decreased from 4.63% to 4.29%.

The following presents the Company's proportionate share of the net pension liabilities calculated using the discount rates, as well as what the Company's proportionate share of the net pension liabilities would be if they were calculated using discount rates that are 1% lower or 1% higher than the current rates as of June 30, 2014:

<b>Company's Proportionate Share of FRS Net Pension Liability</b>			<b>Company's Proportionate Share of HIS Net Pension Liability</b>		
<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
6.65%	7.65%	8.65%	3.29%	4.29%	5.29%
\$ 9,937,358	\$ 2,323,370	\$ (4,010,017)	\$ 5,827,498	\$ 5,123,442	\$ 4,535,755

The pension plans' fiduciary net positions

Detailed information about the pension plans' fiduciary net positions are available in the System's separately issued CAFR. The components of the collective net pension liability of the participating employers for each defined benefit plan for the measurement date of June 30, 2014, are shown below (in thousands):

	<b>FRS</b>	<b>HIS</b>
Total pension liability	\$ 156,115,763	\$ 9,443,629
Plan fiduciary net position	(150,014,292)	(93,385)
Net pension liability	<u>\$ 6,101,471</u>	<u>\$ 9,350,244</u>
Plan fiduciary net position as a percentage of the total pension liability	96%	1%

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

The total pension liability for each plan was determined by the plans' actuary and reported in the plans' valuations dated July 1, 2014. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. Update procedures were not used.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

As of June 30, 2015, the Company reported a liability of \$7,446,812 for its proportionate share of the net pension liabilities. The Company's proportionate share was calculated using accrued retirement contributions for employers that were members of the FRS and HIS during fiscal years 2013 and 2014. The proportion calculated based on contributions for each of the fiscal years was applied to the net pension liability and other pension amounts applicable to that fiscal year to determine the Company's proportionate share of the liability, deferred outflows of resources, deferred inflows of resources and associated pension expense. The Company's proportions are as follows:

	<u>FRS</u>	<u>HIS</u>
June 30, 2014	0.0381%	0.0548%
June 30, 2013	0.0369%	0.0523%
Change	<u>0.0012%</u>	<u>0.0025%</u>

In accordance with GASB 68, paragraph 71, changes in the Company's proportionate share of the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current measurement period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Changes of assumptions or other inputs – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Differences between expected and actual earnings on pension plan investments – amortized over five years.

Contributions to the pension plans from the Company are not included in collective pension expense. The average expected remaining service life of all employees provided with pensions through the pension plans as of June 30, 2014, was 6.3 years for FRS and 7.2 years for HIS.

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
(continued)

For the year ended June 30, 2015, the Company recognized pension expense of \$758,655. As of June 30, 2015, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 143,777
Changes of assumptions	584,681	-
Net difference between projected and actual earnings on pension plan investments	2,458	3,875,772
Changes in proportion and differences between Company contributions and proportionate share of contributions	408,380	60,935
Company contributions subsequent to the measurement date	1,145,838	-
Total	<u>\$ 2,141,357</u>	<u>\$ 4,080,484</u>

Deferred outflows of resources related to the Company's contributions paid subsequent to the measurement date and prior to the Company's fiscal year end will be recognized as a reduction of the net pension liability in the reporting period ending June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

<b>Reporting period ended June 30:</b>	
2016	\$ (828,917)
2017	(828,917)
2018	(828,917)
2019	(828,917)
2020	139,409
Thereafter	95,500

**LAKE WALES CHARTER SCHOOLS, INC.**

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget-Positive (Negative)
<b>REVENUES</b>				
State and local sources	\$ 26,062,763	\$ 26,483,256	\$ 26,560,346	\$ 77,090
Contributions and other revenue	1,602,269	1,641,206	2,234,860	593,654
Total revenues	<u>27,665,032</u>	<u>28,124,462</u>	<u>28,795,206</u>	<u>670,744</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	17,124,541	17,087,179	17,007,532	79,647
Pupil personnel services	681,955	823,454	801,320	22,134
Instructional media	292,347	261,494	235,354	26,140
Instruction and curriculum development	118,794	116,321	112,547	3,774
Instructional staff training	206,720	198,056	219,319	(21,263)
Instructional-related technology	404,296	442,719	435,394	7,325
Board	139,075	141,575	110,186	31,389
General administration	458,521	476,561	460,448	16,113
School administration	2,538,276	2,665,098	3,274,640	(609,542)
Facilities acquisition and construction	36,500	69,797	14,349	55,448
Fiscal services	368,620	370,375	361,297	9,078
Central services	217,292	232,211	235,268	(3,057)
Pupil transportation	1,431,363	1,386,024	1,435,783	(49,759)
Operation of plant	2,222,855	2,227,144	2,203,778	23,366
Maintenance of plant	-	3,500	-	3,500
Administrative technology services	28,761	28,761	27,156	1,605
Community services	306,993	379,630	357,162	22,468
Debt service:				
Principal	384,347	384,347	387,410	(3,063)
Interest	178,498	178,498	179,909	(1,411)
Capital outlay	293,215	659,045	241,735	417,310
Total expenditures	<u>27,432,969</u>	<u>28,131,789</u>	<u>28,100,587</u>	<u>31,202</u>
Excess (deficiency) of revenues over expenditures	<u>232,063</u>	<u>(7,327)</u>	<u>694,619</u>	<u>701,946</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from notes payable	-	-	254,000	254,000
Payoff of notes payable	-	-	(251,611)	(251,611)
Operating transfer in	22,714	22,714	22,714	-
Total other financing sources (uses)	<u>22,714</u>	<u>22,714</u>	<u>25,103</u>	<u>2,389</u>
Net changes in fund balance	254,777	15,387	719,722	704,335
Fund balance at beginning of year	4,513,367	4,513,367	4,513,367	-
Fund balance at end of year	<u>\$ 4,768,144</u>	<u>\$ 4,528,754</u>	<u>\$ 5,233,089</u>	<u>\$ 704,335</u>

See independent auditor's report.

**LAKE WALES CHARTER SCHOOLS, INC.**

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget-Positive (Negative)
<b>REVENUES</b>				
Federal sources	\$ 4,300,586	\$ 4,876,175	\$ 4,895,367	\$ 19,192
State and local sources	-	-	32,618	32,618
Contributions and other revenue	380,066	373,717	262,862	(110,855)
Total revenues	4,680,652	5,249,892	5,190,847	(59,045)
<b>EXPENDITURES</b>				
Current:				
Instruction	1,690,773	2,079,252	1,395,032	684,220
Pupil personnel services	106,982	97,636	123,018	(25,382)
Instruction and curriculum development	352,134	351,146	1,018,036	(666,890)
Instructional staff training	54,761	77,579	58,172	19,407
General administration	52,841	102,295	162,128	(59,833)
School administration	46,840	46,840	20,880	25,960
	-	-	16,761	(16,761)
Food services	2,316,358	2,358,462	2,190,776	167,686
Pupil transportation	8,800	8,317	5,709	2,608
Community services	-	49,814	27,944	21,870
Capital outlay	-	-	86,911	(86,911)
Total expenditures	4,629,489	5,171,341	5,105,367	65,974
Excess of revenues over expenditures	51,163	78,551	85,480	6,929
<b>OTHER FINANCING USES</b>				
Operating transfer out	(22,714)	(22,714)	(22,714)	-
Net changes in fund balance	28,449	55,837	62,766	6,929
Fund balance at beginning of year	339,188	339,188	339,188	-
Fund balance at end of year	\$ 367,637	\$ 395,025	\$ 401,954	\$ 6,929

See independent auditor's report.

**LAKE WALES CHARTER SCHOOLS, INC.**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
LAST 10 FISCAL YEARS ENDING JUNE 30**

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Florida Retirement System (FRS) Pension Plan										
Company's proportion of the net pension liability (asset)	0.0381%	Information for the periods prior to the implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.								
Company's proportionate share of the net pension liability (asset)	\$ 2,323,370									
Company's covered-employee payroll	\$ 16,265,928									
Company's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	14%									
Plan fiduciary net position as a percentage of the total pension liability (asset)	96%									
Retiree Health Insurance Subsidy (HIS) Program										
Company's proportion of the net pension liability (asset)	0.0548%	Information for the periods prior to the implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.								
Company's proportionate share of the net pension liability (asset)	\$ 5,123,442									
Company's covered-employee payroll	\$ 16,265,928									
Company's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31%									
Plan fiduciary net position as a percentage of the total pension liability (asset)	1%									

See independent auditor's report.



# LAKE WALES CHARTER SCHOOLS, INC.

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF CONTRIBUTIONS - PENSION PLANS LAST 10 FISCAL YEARS ENDING JUNE 30

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Florida Retirement System (FRS) Pension Plan</b>										
Contractually required contribution	\$ 936,467	\$ 834,089								
Contributions in relation to the contractually required contribution	936,467	834,089								
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
Company's covered-employee payroll	\$ 16,873,854	\$ 16,265,928								
Contributions as a percentage of covered-employee payroll	6%	5%								
<b>Retiree Health Insurance Subsidy (HIS) Program</b>										
Contractually required contribution	\$ 209,370	\$ 187,707								
Contributions in relation to the contractually required contribution	209,370	187,707								
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
Company's covered-employee payroll	\$ 16,873,854	\$ 16,265,928								
Contributions as a percentage of covered-employee payroll	1%	1%								

Information for the periods prior to the implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.

Information for the periods prior to the implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.

See independent auditor's report.

**LAKE WALES CHARTER SCHOOLS, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor / Pass-Through Grantor / Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass- Through Grantor Number</b>	<b>Grant Period</b>	<b>Expenditures</b>
United States Department of Agriculture / Florida Department of Agriculture and Consumer Services / School Breakfast Program	10.553	321	7/1/2014 - 6/30/2015	\$ 505,110
United States Department of Agriculture / Florida Department of Education / National School Lunch Program	10.555	300	7/1/2014 - 6/30/2015	1,546,602
United States Department of Agriculture / Florida Department of Education / Summer Food Service Program for Children	10.559	323, 324, 325	7/1/2014 - 6/30/2015	<u>22,720</u>
Total Child Nutrition Cluster				<u>2,074,432</u>
United States Department of Education / Florida Department of Education / Title I Grants to Local Educational Agencies	84.010	212	7/1/2014 - 6/30/2015	1,208,044
United States Department of Education / Florida Department of Education / Title I Grants to Local Educational Agencies (School Improvement Grant)	84.010	226	7/1/2014 - 6/30/2015	<u>36,007</u>
Total Title I Grants to Local Educational Agencies				<u>1,244,051</u>
United States Department of Agriculture / Emergency Food Assistance Program (Food Commodities)	10.569	N/A	7/1/2014 - 6/30/2015	81,159
United States Department of Agriculture / Florida Department of Education / Child and Adult Care Food Program	10.558	N/A	7/1/2014 - 6/30/2015	18,163
United States Department of Education / Florida Department of Education / Migrant Education - State Grant Program (Title I)	84.011	217	7/1/2014 - 6/30/2015	18,049

See accompanying note to schedule of expenditures of federal awards.

**LAKE WALES CHARTER SCHOOLS, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
(continued)

<b>Federal Grantor / Pass-Through Grantor / Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass- Through Grantor Number</b>	<b>Grant Period</b>	<b>Expenditures</b>
United States Department of Education / Florida Department of Education / Special Education - Grants to States (IDEA, Part B)	84.027	263	7/1/2014 - 6/30/2015	828,830
United States Department of Education / Florida Department of Education / Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	161	7/1/2014 - 6/30/2015	40,599
United States Department of Education / Florida Department of Education / Education for Homeless Children and Youth (Title X)	84.196	127	7/1/2014 - 6/30/2015	20,003
United States Department of Education / Florida Department of Education / Increasing High School Graduation Rates (Title V)	84.282A	298	7/1/2014 - 7/31/2015	47,744
United States Department of Education / Florida Department of Education / English Language Acquisition State Grants (Title III)	84.365	102	7/1/2014 - 7/31/2015	52,259
United States Department of Education / Florida Department of Education / Improving Teacher Quality State Grants (Title II)	84.367	224	7/1/2014 - 7/31/2015	57,159
United States Department of Health and Human Services / Florida Department of Education / Substance Abuse and Mental Health Services (AWARE Grant)	93.243	N/A	7/1/2014 - 6/30/2015	27,946
United States Department of Defense / Florida Department of Education / Reserve Officer Training Corps (ROTC)	N/A	N/A	7/1/2014 - 6/30/2015	63,440
United States Department of Education / Office of Non-Public Education / E-Rate Program - Discounted Telecommunications Services	N/A	N/A	7/1/2014 - 6/30/2015	321,533
Total Expenditures of Federal Awards				<u>\$ 4,895,367</u>

See accompanying note to schedule of expenditures of federal awards.

**LAKE WALES CHARTER SCHOOLS, INC.**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2015**

**1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Company and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees of Lake Wales Charter Schools, Inc.

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 the governmental activities and each major fund of Lake Wales Charter Schools, Inc. (the "Company") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated November 19, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Company'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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. 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 Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*BKHM, P.A.*

Winter Park, Florida  
November 19, 2015

**Independent Auditor's Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by OMB Circular A-133**

To the Board of Trustees of Lake Wales Charter Schools, Inc.

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

We have audited Lake Wales Charter Schools, Inc.'s (the "Company") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended June 30, 2015. The Company'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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Company'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Company'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 Company's compliance.

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

In our opinion, the Company 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, 2015.



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

Management of the Company 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 Company'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 OMB Circular A-133, 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 Company'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.

### **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 that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Winter Park, Florida  
November 19, 2015



**LAKE WALES CHARTER SCHOOLS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

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

*Financial Statements*

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

*Federal Awards*

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	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 section 510(a) of OMB Circular A-133?	No

Identification of major programs:

CFDA Number	Grant Period	Name of Federal Program
10.553	7/1/2014 – 6/30/2015	School Breakfast Program
10.555	7/1/2014 – 6/30/2015	National School Lunch Program
10.559	7/1/2014 – 6/30/2015	Summer Food Service Program for Children
84.010	7/1/2014 – 6/30/2015	Title I Grants to Local Educational Agencies
84.010	7/1/2014 – 6/30/2015	Title I Grants to Local Educational Agencies (School Improvement Grant)

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

**LAKE WALES CHARTER SCHOOLS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**(continued)**

**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None

**Section IV - Status of Prior Year Audit Findings**

There were no prior year audit findings.