

LAKE WALES CHARTER SCHOOLS, INC.
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORTS THEREON
JUNE 30, 2017



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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, 2017. 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 Uniform Guidance for the Company's federal programs.

FINANCIAL HIGHLIGHTS

- The Company's net position improved compared to the prior year.
- For the fiscal year ended June 30, 2017, the Company's revenues exceeded expenses by \$83,707. This represents a decline from the prior year when revenues exceeded expenses by \$1,281,608.
- Overall, revenues increased by approximately \$1.46 million, which represents a 4% increase from the prior year.
- Overall, expenses increased by approximately \$2.66 million, which represents an 8% 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 *fiduciary fund* financial statement provides information about the financial relationships in which the Company acts solely as an agent for the benefit of others.

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 the Uniform Guidance: 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 the Uniform Guidance 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	Fiduciary Fund
Scope	Entire Company (except the fiduciary fund)	The activities of the Company that are not proprietary or fiduciary	Instances in which the Company administers resources on behalf of someone else
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	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic 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	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term
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	Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations

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, but excludes fiduciary funds. 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 two types of funds:

- 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.

- **Fiduciary Funds** – The Company is the agent, or fiduciary, for assets that belong to others, such as student activities funds. The Company is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The Company excludes these activities from the government-wide financial statements because the Company cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COMPANY AS A WHOLE

Net Position

The Company's combined net position as of June 30, 2017 and 2016 is summarized as follows – see table below.

	Governmental Activities		Increase (Decrease)
	2016	2017	
Current and other assets	\$ 7,550,994	\$ 8,180,544	8%
Capital assets, net	5,599,319	5,569,611	-1%
Deferred outflows of resources	<u>4,775,364</u>	<u>8,444,153</u>	<u>77%</u>
Total assets and deferred outflows	<u>17,925,677</u>	<u>22,194,308</u>	<u>24%</u>
Current and other liabilities	1,724,596	1,650,579	-4%
Long-term liabilities	15,617,743	20,746,179	33%
Deferred inflows of resources	<u>3,264,611</u>	<u>2,395,116</u>	<u>-27%</u>
Total liabilities and deferred inflows	<u>20,606,950</u>	<u>24,791,874</u>	<u>20%</u>
Net position:			
Net investment in capital assets	1,150,810	1,502,496	31%
Restricted	2,628,771	2,900,533	10%
Unrestricted	<u>(6,460,854)</u>	<u>(7,000,595)</u>	<u>-8%</u>
Total net position	<u><u>\$ (2,681,273)</u></u>	<u><u>\$ (2,597,566)</u></u>	<u><u>3%</u></u>

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 (\$2,597,566) as of June 30, 2017. Net investment in capital assets, totaling \$1,502,496, 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 (\$7,000,595) 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 charter schools' general operations, which includes the implementation of GASB 68 in fiscal 2015. The Company has the cash flow available to meet all current obligations.

Current and other assets totaled \$8,180,544, 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 at the fund level. Net capital assets decreased due to depreciation exceeding capital asset additions. Deferred outflows of resources and deferred inflows of resources relate to the Company's participation in the state's pensions plans and the adoption of GASB 68. The current and other liabilities balance reflects both accounts payable and payroll liability obligations 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 long-term liabilities increase is primarily attributable to the continued increase in the Company's proportionate share of the state's net pension obligation. See Note 8 for additional pension plan information. Additional information on the Company's long-term debt obligations is presented in Note 4 to the financial statements.

Change in Net Position

The Company's total revenues increased by 4% to \$36,061,928, and the total cost of all programs and services increased by 8% to \$35,978,221 – see table below.

	Governmental Activities		Increase
	2016	2017	(Decrease)
Revenues:			
Federal sources	\$ 5,130,720	\$ 4,922,657	-4%
State and local sources	27,487,814	28,615,520	4%
Contributions and other revenue	1,985,882	2,523,751	27%
Total revenues	34,604,416	36,061,928	4%
Expenses:			
Instruction	19,173,256	20,832,105	9%
Pupil personnel services	1,038,037	1,077,356	4%
Instructional media	288,915	369,454	28%
Instruction and curriculum development	1,218,484	957,895	-21%
Instructional staff training	277,646	230,384	-17%
Instruction-related technology	280,236	400,396	43%
Board	116,943	263,188	125%
General administration	689,961	723,586	5%
School administration	2,533,359	2,924,510	15%
Facilities acquisition and construction	176,149	474,321	169%
Fiscal services	391,049	450,408	15%
Food services	2,345,592	2,459,958	5%
Central services	224,560	102,932	-54%
Pupil transportation	1,702,942	1,835,119	8%
Operation of plant	2,206,611	2,216,341	0%
Maintenance of plant	5,504	2,190	-60%
Administrative technology services	23,168	57,599	149%
Community services	476,079	460,327	-3%
Interest	154,317	140,152	-9%
Total expenses	33,322,808	35,978,221	8%
Change in net position	\$ 1,281,608	\$ 83,707	-93%

The majority of the Company's revenue is provided through the state's FEFP, state categorical educational programs and local property taxes (79% of the Company's total governmental revenues) to fund current operations. The Company received approximately 14% of its total revenues from federal sources – a combination of federal entitlement revenues, National School Lunch Program and E-rate funding in fiscal 2017. The remaining portion of the Company's revenue (7%) is the result of contributions and program revenue.

Instruction and instruction-related activities represent 66% of the Company's expenses, which increased approximately 7% during fiscal 2017, a result of increased expenditures for educational services to students. The remaining cost portion of government-wide activity representing the board, general and administrative support services, finance, food service, central services, transportation, operation and maintenance of plant, community services and debt service accounted for 34% of total costs. These administrative and business support functions increased 10% compared to last year. Overall, total governmental revenues exceeded total costs during 2017 causing a net position change of \$83,707 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 \$6,529,965, which is an increase from the prior year. Both revenues and expenditures increased overall during fiscal 2017 for the same reasons described above.

General and Special Revenue Fund Budgetary Highlights

Over the course of the fiscal year, the Company amended its budget to address changes in revenues and expenditures. The general fund budget amendments were performed primarily to reflect revised student enrollment and to adjust planned expenditures based on actual resource needs. To accurately appropriate federal grant funding, the Company maintains a portion of special revenue funding for redistribution until the schools amend their budget during the fiscal year.

For the year ended June 30, 2017, actual general fund revenues were approximately \$170,000 above the budgeted amounts, which represents an approximate budget variance of 1%. Actual general fund expenditures were approximately \$200,000 below the budgeted amounts, which represents an approximate budget variance of 1%. These favorable variances are the result of the Company's approach of accountable and autonomous school site-based resource management across the organization's functional revenue and expenditure areas.

For the year ended June 30, 2017, actual special revenue fund revenues were approximately \$645,000 below the budgeted amounts, which represents an 11% budget variance. Actual special revenue fund expenditures were approximately \$751,000 below budgeted amounts, which represents a 13% budget variance. These variances were due to a shift in the designated funding use from operational to fixed capital outlay for a limited state STEM appropriation received in fiscal year 2017. Due to the late change in funding designation, the fixed capital expenditures will occur during fiscal year 2018 and thereafter.

A schedule showing the original and final budget amounts compared to the Company's actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2017, the Company had invested \$12,860,356 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
	2016	2017	(Decrease)
Land	\$ 707,882	\$ 707,882	0%
Construction in progress	35,320	130,325	269%
Improvements other than buildings	492,600	814,588	65%
Buildings	4,419,030	4,419,030	0%
Furniture, fixtures and equipment	4,102,243	4,426,499	8%
Motor vehicles	1,765,356	1,765,356	0%
Computer software	596,676	596,676	0%
Total capital assets	<u>\$ 12,119,107</u>	<u>\$ 12,860,356</u>	<u>6%</u>

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

- Portables project - \$112,704
- Projectors and interactive boards - \$112,151
- STEM classroom - \$94,513
- Computers and related equipment - \$85,280
- Food service equipment - \$62,111
- Athletic facility improvements - \$58,328
- Fiber optic cable upgrade - \$41,904
- Remodel orchestra room - \$19,115
- Sculpture garden - \$17,621
- LED sign - \$13,170
- Dock - \$12,803
- Flexcat audio system - \$12,017
- Security cameras - \$11,928
- Wireless access - \$10,961
- Site improvements - \$10,375

During the current fiscal year, the Company transferred \$127,403 from construction in progress into a depreciable capital asset account. There were no other significant capital asset disposals during the year.

The Company's fiscal year 2018 capital budget includes spending related to an eight classroom instructional building for Edward W. Bok Academy. 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, 2017, the Company had \$4,067,115 in borrowings outstanding, as compared to \$4,448,509 in the prior year. The decrease in long-term debt is primarily due to principal payments made on the outstanding notes payable in excess of new debt acquired. Interest expense related to these borrowings totaled \$140,152 for the year ended June 30, 2017. 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 2018:

- Student membership and state educational funding per pupil
- Cost of goods and services
- Competitive employee compensation

Amounts available for appropriation in the general fund are \$32,076,147, an increase of 4% from the actual 2017 amount of \$30,750,095. A predominate factor affecting the budget is the Schools' funded student membership. The funded membership for the fiscal year is 50 percent of the October 2017 and February 2018 student counts. The conservative fiscal year 2018 budget incorporates thirty-five fewer students from the official membership funded in 2017, with potential adjustment during the mid-year budget revision. As the Company's major source of operating revenue, stability in the state's education resource allocation continues to be a challenge. The slight reduction in student membership and flat revenue projection in state per pupil funding reduces the Company's state and local portion of operating revenue in 2018. The increase in the Company's general fund revenue is primarily attributable to \$2.2 million of private funding for construction of an eight-classroom addition at Edward W. Bok Academy middle school.

Budgeted general fund expenditures are expected to increase to \$32,076,147, or about 6%, from the fiscal 2017 actual figure of \$30,380,449. In addition to the new eight-classroom construction for use in the 2019 academic year, the increased expenditure base includes resources placed for salary increases, the rising cost of health care and other fixed recurring costs for Company operations. The Company and the system of six public charter schools is confident that it has staff and other resources in place to enhance academic achievement at all student-learning levels and effectively serve its anticipated student membership.

If these estimates are realized, the Company's general fund balance is expected to remain the same by the close of fiscal 2018.

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, each major fund and the aggregate remaining fund information of Lake Wales Charter Schools, Inc. (the "Company") as of and for the year ended June 30, 2017, 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, each major fund and the aggregate remaining fund information of Lake Wales Charter Schools, Inc. as of June 30, 2017, 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.

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 – 9, the budgetary comparison information on pages 39 – 40 and the pension information on pages 41 – 42 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

To the Board of Trustees of Lake Wales Charter Schools, Inc.
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OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017 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
September 21, 2017

LAKE WALES CHARTER SCHOOLS, INC.

STATEMENT OF NET POSITION

JUNE 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 5,223,800
Restricted cash	2,006,668
Accounts receivable	856,240
Prepaid expenses and other current assets	93,836
Capital assets:	
Land	707,882
Construction in progress	130,325
Improvements other than buildings	814,588
Buildings	4,419,030
Furniture, fixtures and equipment	4,426,499
Motor vehicles	1,765,356
Computer software	596,676
Less accumulated depreciation	<u>(7,290,745)</u>
Total capital assets, net	<u>5,569,611</u>
Total assets	<u>13,750,155</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows of resources	8,444,153
Total assets and deferred outflows of resources	<u><u>\$ 22,194,308</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 1,540,291
Unearned revenue	10,288
Due to Lake Wales Charter Schools Foundation	100,000
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences payable	784,642
Notes payable	467,146
Portion due or payable after one year:	
Notes payable	3,599,969
Net pension liability	<u>15,894,422</u>
Total liabilities	<u>22,396,758</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows of resources	<u>2,395,116</u>
NET POSITION	
Net investment in capital assets	1,502,496
Restricted for:	
Food service	893,865
Certificate of deposit serving as collateral for note payable	2,006,668
Unrestricted	<u>(7,000,595)</u>
Total net position	<u>(2,597,566)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 22,194,308</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, 2017

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
Governmental activities:						
Instruction	\$ 20,832,105	\$ 571,825	\$ 1,188,987	\$ -	\$(19,071,293)	\$(19,071,293)
Pupil personnel services	1,077,356	-	230,801	-	(846,555)	(846,555)
Instructional media	369,454	-	-	-	(369,454)	(369,454)
Instruction and curriculum development	957,895	-	867,806	-	(90,089)	(90,089)
Instructional staff training	230,384	-	59,644	-	(170,740)	(170,740)
Instruction-related technology	400,396	-	-	-	(400,396)	(400,396)
Board	263,188	-	-	-	(263,188)	(263,188)
General administration	723,586	-	74,249	-	(649,337)	(649,337)
School administration	2,924,510	-	-	-	(2,924,510)	(2,924,510)
Facilities acquisition and construction	474,321	-	-	-	(474,321)	(474,321)
Fiscal services	450,408	-	-	-	(450,408)	(450,408)
Food services	2,459,958	351,336	2,421,306	-	312,684	312,684
Central services	102,932	-	-	-	(102,932)	(102,932)
Pupil transportation	1,835,119	7,025	538	-	(1,827,556)	(1,827,556)
Operation of plant	2,216,341	-	-	-	(2,216,341)	(2,216,341)
Maintenance of plant	2,190	-	-	-	(2,190)	(2,190)
Administrative technology services	57,599	-	-	-	(57,599)	(57,599)
Community services	460,327	-	6,579	-	(453,748)	(453,748)
Interest	140,152	-	-	-	(140,152)	(140,152)
Total primary government	<u>\$ 35,978,221</u>	<u>\$ 930,186</u>	<u>\$ 4,849,910</u>	<u>\$ -</u>	<u>(30,198,125)</u>	<u>(30,198,125)</u>
General revenues:						
Federal sources					72,747	72,747
State and local sources					28,615,520	28,615,520
Contributions and other revenue					1,593,565	1,593,565
Total general revenues					<u>30,281,832</u>	<u>30,281,832</u>
Change in net position					83,707	83,707
Net position at beginning of year					<u>(2,681,273)</u>	<u>(2,681,273)</u>
Net position at end of year					<u>\$ (2,597,566)</u>	<u>\$ (2,597,566)</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, 2017

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 4,559,435	\$ 664,365	\$ 5,223,800
Restricted cash	2,006,668	-	2,006,668
Accounts receivable	504,394	351,846	856,240
Prepaid expenditures and other current assets	93,836	-	93,836
Total assets	<u>\$ 7,164,333</u>	<u>\$ 1,016,211</u>	<u>\$ 8,180,544</u>
LIABILITIES			
Accounts payable and accrued expenditures	\$ 1,428,083	\$ 112,208	\$ 1,540,291
Unearned revenue	150	10,138	10,288
Due to Lake Wales Charter Schools Foundation	100,000	-	100,000
Total liabilities	<u>1,528,233</u>	<u>122,346</u>	<u>1,650,579</u>
FUND BALANCES			
Nonspendable:			
Prepaid expenditures and other current assets	93,836	-	93,836
Restricted for:			
Food service	-	893,865	893,865
Certificate of deposit serving as collateral for note payable	2,006,668	-	2,006,668
Committed to:			
Performance/merit pay supplement program	74,630	-	74,630
Unassigned	3,460,966	-	3,460,966
Total fund balances	<u>5,636,100</u>	<u>893,865</u>	<u>6,529,965</u>
Total liabilities and fund balances	<u>\$ 7,164,333</u>	<u>\$ 1,016,211</u>	<u>\$ 8,180,544</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, 2017

Total fund balances - governmental funds \$ 6,529,965

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 \$12,860,356, and the accumulated depreciation is \$7,290,745. 5,569,611

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. (784,642)

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 8,444,153
Net pension liability (15,894,422)
Pension related deferred inflows of resources (2,395,116)

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 (4,067,115)
Total net position - governmental activities \$ (2,597,566)

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, 2017

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Federal sources	\$ -	\$ 4,922,657	\$ 4,922,657
State and local sources	28,577,680	37,840	28,615,520
Contributions and other revenue	2,172,415	351,336	2,523,751
Total revenues	30,750,095	5,311,833	36,061,928
EXPENDITURES			
Current:			
Instruction	18,807,650	1,188,987	19,996,637
Pupil personnel services	844,061	230,801	1,074,862
Instructional media	365,561	-	365,561
Instruction and curriculum development	87,649	867,806	955,455
Instructional staff training	168,864	59,644	228,508
Instruction-related technology	377,690	-	377,690
Board	263,188	-	263,188
General administration	539,163	169,318	708,481
School administration	2,611,198	-	2,611,198
Facilities acquisition and construction	244,625	-	244,625
Fiscal services	408,290	17,985	426,275
Food services	-	2,427,668	2,427,668
Central services	96,382	-	96,382
Pupil transportation	1,607,944	538	1,608,482
Operation of plant	2,178,256	-	2,178,256
Maintenance of plant	417	-	417
Administrative technology services	54,569	-	54,569
Community services	444,302	6,579	450,881
Debt service:			
Principal	445,555	-	445,555
Interest	140,152	-	140,152
Capital outlay	694,933	72,747	767,680
Total expenditures	30,380,449	5,042,073	35,422,522
Excess of revenues over expenditures	369,646	269,760	639,406
OTHER FINANCING SOURCES			
Proceeds from notes payable	64,161	-	64,161
Net changes in fund balances	433,807	269,760	703,567
Fund balances at beginning of year	5,202,293	624,105	5,826,398
Fund balances at end of year	\$ 5,636,100	\$ 893,865	\$ 6,529,965

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, 2017

Net changes in fund balances - total governmental funds	\$	703,567
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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 (\$797,388) exceeds capital outlays (\$767,680) in the current period.		(29,708)
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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.		(162,369)
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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.		(809,177)
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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.		445,555
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Proceeds from long-term debt are reported as other financing sources in the governmental funds because they represent an increase in current financial resources. They are reported as an increase in long-term liabilities in the statement of net assets.		(64,161)
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Change in net position of governmental activities	\$	83,707
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The accompanying notes to financial statements are an integral part of this statement.

LAKE WALES CHARTER SCHOOLS, INC.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

JUNE 30, 2017

	Agency Fund
ASSETS	
Cash and cash equivalents	\$ 308,975
Accounts receivable	1,916
Prepaid expenditures and other current assets	<u>1,660</u>
Total assets	<u><u>\$ 312,551</u></u>
LIABILITIES	
Due to student groups	<u>\$ 312,551</u>
Total liabilities	<u><u>\$ 312,551</u></u>

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, 2017

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:

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.

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.

LAKE WALES CHARTER SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

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, but excludes fiduciary funds. 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.

Fiduciary Fund:

- Agency Fund – to account for school internal funds, which are established to record the receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The Company retains no equity interest in these funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Budgetary Basis Accounting

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

Deposits and Investments

During the year ended June 30, 2017, 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. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
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.

LAKE WALES CHARTER SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

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 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.

LAKE WALES CHARTER SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

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 2013.

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.

LAKE WALES CHARTER SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

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 30th 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 evaluated subsequent events through September 21, 2017, the date these financial statements were available to be issued.

Recently Issued Accounting Pronouncement

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The new standard is effective for the fiscal year ending June 30, 2020. The cumulative effect of any changes adopted to conform to the provisions of this guidance would be reported as a restatement of beginning net position and fund balance. The Company is currently evaluating the effect that implementation of the new standard will have on its financial statements.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

2 ACCOUNTS RECEIVABLE

Accounts receivable included in the accompanying financial statements include \$856,240 in funds receivable from the Lake Wales Charter Schools Foundation and from federal and state agencies under various grants, as follows:

State capital appropriation	\$ 221,680
E-Rate Program	216,610
Title I Grants to Local Educational Agencies	183,556
Special Education – Grants to States (IDEA, Part B)	123,422
Summer Food Service Program	21,761
Lake Wales Charter Schools Foundation	18,746
Capital school capital outlay	14,073
Reserve Officer Training Corps (ROTC)	5,683
Title III, English Language Acquisition State Grant	5,680
Title I, Migrant Education – State Grant Program	3,870
Title X, Education for Homeless Children and Youth	3,274
Title I, School Improvement Grant	2,675
Title II, Improving Teacher Quality State Grant	1,219
Career and Technical Education – Basic Grants to States (Perkins IV)	706
Other	<u>33,285</u>
Total	<u><u>\$ 856,240</u></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, 2017 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
Construction in progress	35,320	222,408	(127,403)	130,325
Total capital assets not being depreciated at historical cost	<u>743,202</u>	<u>222,408</u>	<u>(127,403)</u>	<u>838,207</u>
Other capital assets:				
Improvements other than buildings	492,600	321,988	-	814,588
Buildings	4,419,030	-	-	4,419,030
Furniture, fixtures and equipment	4,102,243	350,687	(26,431)	4,426,499
Motor vehicles	1,765,356	-	-	1,765,356
Computer software	596,676	-	-	596,676
Total other capital assets at historical cost	<u>11,375,905</u>	<u>672,675</u>	<u>(26,431)</u>	<u>12,022,149</u>
Less accumulated depreciation for:				
Improvements other than buildings	(82,845)	(106,763)	-	(189,608)
Buildings	(1,089,429)	(134,376)	-	(1,223,805)
Furniture, fixtures and equipment	(3,588,863)	(298,866)	26,431	(3,861,298)
Motor vehicles	(1,169,526)	(252,228)	-	(1,421,754)
Computer software	(589,125)	(5,155)	-	(594,280)
Total accumulated depreciation	<u>(6,519,788)</u>	<u>(797,388)</u>	<u>26,431</u>	<u>(7,290,745)</u>
Other capital assets, net	<u>4,856,117</u>	<u>(124,713)</u>	<u>-</u>	<u>4,731,404</u>
Governmental activities capital assets, net	<u>\$ 5,599,319</u>	<u>\$ 97,695</u>	<u>\$ (127,403)</u>	<u>\$ 5,569,611</u>

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 237,361
Pupil personnel services	175
Instructional media	757
Instruction and curriculum development	1,473
Instructional staff training	1,844
Instruction-related technology	22,706
General administration	669
School administration	8,774
Facilities acquisition and construction	229,696
Fiscal services	301
Food services	32,046
Central services	644
Pupil transportation	222,947
Operation of plant	25,395
Maintenance of plant	1,773
Administrative technology services	1,381
Community services	9,446
	<hr/>
Total governmental activities depreciation expense	\$ <u>797,388</u>

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

4 LONG-TERM DEBT

Long-term debt consists of the following as of June 30, 2017:

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.	\$ 3,530,432
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.	284,299
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.	205,138
Note payable to a finance company; principal and interest of \$1,916 due monthly at 4.76%; maturity date of August 2019; secured by seventeen smartboards.	<u>47,246</u>
Total long-term debt	4,067,115
Less amount due or payable within one year	<u>(467,146)</u>
Amount due or payable after one year	<u><u>\$ 3,599,969</u></u>

In connection with the \$3,530,432 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 \$3,530,432 mortgage note payable described above contains certain covenants with which the Company must comply. As of June 30, 2017, the Company was in compliance with all restrictive covenants.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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

Balance outstanding at beginning of year	\$ 4,448,509
Additions	64,161
Reductions	<u>(445,555)</u>
Balance outstanding at end of year	<u>\$ 4,067,115</u>
Amount due within one year	<u>\$ 467,146</u>

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

Year ended June 30,	Principal	Interest	Total
2018	\$ 467,146	\$ 120,593	\$ 587,739
2019	273,624	104,060	377,684
2020	219,958	96,554	316,512
2021	222,837	89,843	312,680
2022	229,735	82,945	312,680
2023 - 2027	1,187,224	306,509	1,493,733
2028 - 2032	1,283,627	126,373	1,410,000
2033	182,964	2,114	185,078
Total	<u>\$ 4,067,115</u>	<u>\$ 928,991</u>	<u>\$ 4,996,106</u>

Interest paid during the year ended June 30, 2017 totaled approximately \$140,000.

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	\$ 17,947,450
Class size reduction	4,550,938
Discretionary millage funds	997,873
Supplemental academic instruction	954,196
Discretionary tax equalization funds	928,810
ESE guaranteed allocation	832,387
Transportation	763,956
Instructional materials	347,996
State capital appropriation	221,680
Reading allocation	176,996
Capital outlay	169,084
Best and brightest	122,704
Advanced placement bonus	112,048
School recognition	108,109
Digital classroom allocation	87,489
Safe schools	81,587
Discretionary lottery funds	67,599
Teacher lead pay	62,304
National School Lunch Program state match allocation	37,840
Career and professional education bonus	28,293
Safe grant	15,058
Other state revenue	<u>1,123</u>
Total	<u>\$ 28,615,520</u>

The administration fee paid to the School Board during the year ended June 30, 2017 totaled approximately \$163,000, 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, 2017 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. The bus lease expires in July 2019, and the portable classrooms lease expired in August 2017.

The Company also leases certain other equipment from unrelated parties under non-cancelable operating leases. These leases contain varying renewal options with the last lease expiring August 2018. The leases are collateralized by the equipment purchased with the leases. Aggregate remaining minimum rental commitments as of June 30, 2017 under these leases are summarized as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 223,915
2019	57,619
Total	<u>\$ 281,534</u>

Lease payments were approximately \$179,000 for the year ended June 30, 2017. Of this amount, approximately \$139,000 is included in pupil transportation and approximately \$40,000 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. 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 or by contacting the Division.

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. The Florida Legislature establishes and amends the contribution requirements and benefit terms of the FRS Pension Plan. 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 non-integrated 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 Florida Legislature establishes and amends the contribution requirements and benefit terms of the HIS Program. 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, 2016, 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 may 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.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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 specific to each defined benefit plan and do not equal total blended contributions remitted by the employer. 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%	7.52%
Florida Retirement System, Reemployed Retiree	(B)	(B)

- (A) Employer rates include 1.66% for the Retiree Health Insurance Subsidy and 0.06% 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 cost-sharing 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 that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study for the FRS Pension Plan.

The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth, including inflation, 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 7.60%. 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 2.85% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). 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 2016:

- FRS: The long-term expected rate of return was decreased from 7.65% to 7.60%, and the active member mortality assumption was updated.
- HIS: The municipal rate used to determine total pension liability was decreased from 3.80% to 2.85%.

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, 2016:

Company's Proportionate Share of FRS Net Pension Liability			Company's Proportionate Share of HIS Net Pension Liability		
1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
6.60%	7.60%	8.60%	1.85%	2.85%	3.85%
\$ 17,149,598	\$ 9,315,030	\$ 2,793,783	\$ 7,548,054	\$ 6,579,392	\$ 5,775,450

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, 2016, are shown below (in thousands):

	FRS	HIS
Total pension liability	\$ 167,030,999	\$ 11,768,445
Plan fiduciary net position	(141,780,921)	(113,859)
Net pension liability	<u>\$ 25,250,078</u>	<u>\$ 11,654,586</u>
Plan fiduciary net position as a percentage of the total pension liability	84.88%	0.97%

The total pension liability for the FRS Pension Plan was determined by the plan's actuary and reported in the plan's valuation dated July 1, 2016. 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.

The HIS actuarial valuation was prepared as of July 1, 2016. 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.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2017, the Company reported a liability of \$15,894,422 for its proportionate share of the net pension liabilities. The Company’s proportionate share was calculated using accrued retirement contributions related to the reporting periods included in the System’s fiscal years ending June 30, 2014, 2015 and 2016, respectively, for employers that were members of the FRS and HIS during those fiscal years. 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:

	FRS	HIS
June 30, 2016	0.0369%	0.0565%
June 30, 2015	0.0384%	0.0548%
Change	-0.0015%	0.0017%

In accordance with GASB 68, paragraphs 54 and 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 reporting 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).
- Changes in proportion and differences between contributions and proportionate share of contributions – 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.

Employer contributions to the pension plans from the Company are not included in collective pension expense; however, employee contributions are used to reduce pension expense. The average expected remaining service life of all employees provided with pensions through the pension plans as of June 30, 2016, was 6.4 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, 2017, the Company recognized pension expense of \$2,153,566. As of June 30, 2017, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 713,230	\$ 101,716
Changes of assumptions	1,596,004	-
Net difference between projected and actual earnings on pension plan investments	4,288,585	1,877,436
Changes in proportion and differences between Company contributions and proportionate share of contributions	631,557	415,964
Company contributions subsequent to the measurement date	1,214,777	-
Total	\$ 8,444,153	\$ 2,395,116

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

Reporting Period Ended June 30:	Amount
2018	\$ 718,765
2019	718,765
2020	1,645,453
2021	1,197,813
2022	339,854
Thereafter	213,610

LAKE WALES CHARTER SCHOOLS, INC.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State and local sources	\$ 27,410,639	\$ 28,010,519	\$ 28,577,680	\$ 567,161
Contributions and other revenue	2,054,404	2,569,636	2,172,415	(397,221)
Total revenues	<u>29,465,043</u>	<u>30,580,155</u>	<u>30,750,095</u>	<u>169,940</u>
EXPENDITURES				
Current:				
Instruction	17,848,824	18,210,950	18,807,650	(596,700)
Pupil personnel services	866,017	854,673	844,061	10,612
Instructional media	344,994	385,885	365,561	20,324
Instruction and curriculum development	137,592	94,384	87,649	6,735
Instructional staff training	179,349	180,966	168,864	12,102
Instruction-related technology	374,096	339,707	377,690	(37,983)
Board	139,000	302,000	263,188	38,812
General administration	485,532	493,498	539,163	(45,665)
School administration	2,806,951	2,808,204	2,611,198	197,006
Facilities acquisition and construction	-	51,495	244,625	(193,130)
Fiscal services	385,846	398,240	408,290	(10,050)
Central services	75,873	99,527	96,382	3,145
Pupil transportation	1,598,391	1,639,353	1,607,944	31,409
Operation of plant	2,325,123	2,241,917	2,178,256	63,661
Maintenance of plant	3,500	-	417	(417)
Administrative technology services	54,823	53,935	54,569	(634)
Community services	377,914	439,756	444,302	(4,546)
Debt service:				
Principal	425,359	442,274	445,555	(3,281)
Interest	139,388	141,634	140,152	1,482
Capital outlay	896,471	1,401,757	694,933	706,824
Total expenditures	<u>29,465,043</u>	<u>30,580,155</u>	<u>30,380,449</u>	<u>199,706</u>
Excess of revenues over expenditures	-	-	369,646	369,646
OTHER FINANCING SOURCES				
Proceeds from notes payable	-	-	64,161	64,161
Net changes in fund balance	-	-	433,807	433,807
Fund balance at beginning of year	5,202,293	5,202,293	5,202,293	-
Fund balance at end of year	<u>\$ 5,202,293</u>	<u>\$ 5,202,293</u>	<u>\$ 5,636,100</u>	<u>\$ 433,807</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>Final Budget-</u>
			<u>Basis)</u>	<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Federal sources	\$ 4,889,021	\$ 4,996,356	\$ 4,922,657	\$ (73,699)
State and local sources	700,000	700,000	37,840	(662,160)
Contributions and other revenue	250,000	260,000	351,336	91,336
Total revenues	<u>5,839,021</u>	<u>5,956,356</u>	<u>5,311,833</u>	<u>(644,523)</u>
EXPENDITURES				
Current:				
Instruction	2,828,623	2,364,068	1,188,987	1,175,081
Pupil personnel services	30,130	130,482	230,801	(100,319)
Instruction and curriculum development	120,683	455,475	867,806	(412,331)
Instructional staff training	37,419	102,745	59,644	43,101
General administration	90,451	88,327	169,318	(80,991)
Fiscal services	-	-	17,985	(17,985)
Food services	2,563,570	2,648,583	2,427,668	220,915
Pupil transportation	1,000	3,870	538	3,332
Community services	-	-	6,579	(6,579)
Capital outlay	-	-	72,747	(72,747)
Total expenditures	<u>5,671,876</u>	<u>5,793,550</u>	<u>5,042,073</u>	<u>751,477</u>
Net changes in fund balance	167,145	162,806	269,760	106,954
Fund balance at beginning of year	624,105	624,105	624,105	-
Fund balance at end of year	<u>\$ 791,250</u>	<u>\$ 786,911</u>	<u>\$ 893,865</u>	<u>\$ 106,954</u>

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**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Florida Retirement System (FRS) Pension Plan										
Company's proportion of the net pension liability (asset)	0.0369%	0.0384%	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)	\$ 9,315,030	\$ 4,961,155	\$ 2,323,370							
Company's covered-employee payroll	\$ 17,563,729	\$ 16,873,854	\$ 16,265,928							
Company's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	53%	29%	14%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	85%	92%	96%							
Retiree Health Insurance Subsidy (HIS) Program										
Company's proportion of the net pension liability (asset)	0.0565%	0.0548%	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)	\$ 6,579,392	\$ 5,585,800	\$ 5,123,442							
Company's covered-employee payroll	\$ 17,563,729	\$ 16,873,854	\$ 16,265,928							
Company's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	37%	33%	31%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	1%	1%	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**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Florida Retirement System (FRS) Pension Plan										
Contractually required contribution	\$ 923,921	\$ 899,649	\$ 936,467	\$ 834,089	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.					
Contributions in relation to the contractually required contribution	923,921	899,649	936,467	834,089						
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -						
Company's covered-employee payroll	\$ 17,568,119	\$ 17,563,729	\$ 16,873,854	\$ 16,265,928						
Contributions as a percentage of covered-employee payroll	5%	5%	6%	5%						
Retiree Health Insurance Subsidy (HIS) Program										
Contractually required contribution	\$ 290,856	\$ 289,358	\$ 209,370	\$ 187,707	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.					
Contributions in relation to the contractually required contribution	290,856	289,358	209,370	187,707						
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -						
Company's covered-employee payroll	\$ 17,568,119	\$ 17,563,729	\$ 16,873,854	\$ 16,265,928						
Contributions as a percentage of covered-employee payroll	2%	2%	1%	1%						

See independent auditor's report.

LAKE WALES CHARTER SCHOOLS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass- Through Grantor Number	Grant Period	Expenditures
United States Department of Agriculture / Florida Department of Agriculture and Consumer Services / School Breakfast Program	10.553	321	7/1/2016 - 6/30/2017	\$ 620,232
United States Department of Agriculture / Florida Department of Education / National School Lunch Program	10.555	300	7/1/2016 - 6/30/2017	1,697,197
United States Department of Agriculture / Florida Department of Education / Summer Food Service Program for Children	10.559	323, 324, 325	7/1/2016 - 6/30/2017	<u>33,543</u>
Total Child Nutrition Cluster				<u>2,350,972</u>
United States Department of Education / Florida Department of Education / Title I Grants to Local Educational Agencies	84.010	212	7/1/2016 - 6/30/2017	1,105,045
United States Department of Education / Florida Department of Education / Title I Grants to Local Educational Agencies (School Improvement Grant)	84.010	226	7/1/2016 - 6/30/2017	<u>22,439</u>
Total Title I Grants to Local Educational Agencies				<u>1,127,484</u>
United States Department of Agriculture / Emergency Food Assistance Program (Food Commodities)	10.569	N/A	7/1/2016 - 6/30/2017	126,942
United States Department of Education / Florida Department of Education / Migrant Education - State Grant Program (Title I)	84.011	217	7/1/2016 - 6/30/2017	16,876
United States Department of Education / Florida Department of Education / Special Education - Grants to States (IDEA, Part B)	84.027	263	7/1/2016 - 6/30/2017	756,143

See accompanying note to schedule of expenditures of federal awards.

LAKE WALES CHARTER SCHOOLS, INC.

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

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass- Through Grantor Number	Grant Period	Expenditures
United States Department of Education / Florida Department of Education / Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	161	7/1/2016 - 6/30/2017	27,948
United States Department of Education / Florida Department of Education / Education for Homeless Children and Youth (Title X)	84.196	127	7/1/2016 - 6/30/2017	32,847
United States Department of Education / Florida Department of Education / English Language Acquisition State Grants (Title III)	84.365	102	7/1/2016 - 6/30/2017	49,159
United States Department of Education / Florida Department of Education / Improving Teacher Quality State Grants (Title II)	84.367	224	7/1/2016 - 6/30/2017	32,084
United States Department of Health and Human Services / Florida Department of Education / Substance Abuse and Mental Health Services (AWARE Grant)	93.243	N/A	7/1/2016 - 6/30/2017	6,579
United States Department of Defense / Florida Department of Education / Reserve Officer Training Corps (ROTC)	N/A	N/A	7/1/2016 - 6/30/2017	67,434
United States Department of Education / Office of Non-Public Education / E-Rate Program - Discounted Telecommunications Services	N/A	N/A	7/1/2016 - 6/30/2017	<u>328,189</u>
Total Expenditures of Federal Awards				<u>\$ 4,922,657</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, 2017

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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance).

For the year ended June 30, 2017, the Company did not elect to use the 10% de minimis indirect cost rate.

**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, each major fund and the aggregate remaining fund information of Lake Wales Charter Schools, Inc. (the “Company”) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Company’s basic financial statements, and have issued our report thereon dated September 21, 2017.

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 Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKHM, P.A.

Winter Park, Florida
September 21, 2017

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

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 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, 2017. 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2017.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKHM, P.A.

Winter Park, Florida
September 21, 2017

LAKE WALES CHARTER SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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 the Uniform Guidance? No

Identification of major programs:

<u>CFDA Number</u>	<u>Grant Period</u>	<u>Name of Federal Program</u>
10.553	7/1/2016 – 6/30/2017	School Breakfast Program
10.555	7/1/2016 – 6/30/2017	National School Lunch Program
10.559	7/1/2016 – 6/30/2017	Summer Food Service Program for Children
84.027	7/1/2016 – 6/30/2017	Special Education – Grants to States (IDEA, Part B)

Dollar threshold used to distinguish between type A and type B programs: \$750,000

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.