



LAKE WALES CHARTER SCHOOLS, INC.

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

JUNE 30, 2020



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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, 2020. Please read it in conjunction with the Company's financial statements, which follow this section.

Lake Wales Charter Schools, Inc. operates a system of seven public charter schools in the Lake Wales, Florida area (Dale R. Fair Babson Park Elementary School, Edward W. Bok Academy, Edward W. Bok Academy North, 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 decreased compared to the prior year.
- For the fiscal year ended June 30, 2020, the Company's expenses exceeded revenues by \$1,606,742. This represents a decrease from the prior year when revenues and impairment gain on hurricane damage, net of insurance recovery, exceeded expenses by \$978,888.
- Overall, revenues increased by approximately \$186,000, which represents a less than 1% increase from the prior year.
- Overall, expenses increased by approximately \$2,623,000, which represents a 7% 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, 2020 and 2019 is summarized as follows – see table below.

	Governmental Activities		Increase (Decrease)
	2020	2019	
Current and other assets	\$ 11,848,415	\$ 12,617,316	-6%
Capital assets, net	10,315,772	8,953,164	15%
Deferred outflows of resources	7,057,401	6,929,763	2%
Total assets and deferred outflows	<u>29,221,588</u>	<u>28,500,243</u>	<u>3%</u>
Current and other liabilities	2,156,709	2,321,740	-7%
Long-term liabilities	23,386,450	20,573,300	14%
Deferred inflows of resources	1,926,864	2,246,896	-14%
Total liabilities and deferred inflows	<u>27,470,023</u>	<u>25,141,936</u>	<u>9%</u>
Net position:			
Net investment in capital assets	6,769,240	5,629,700	20%
Restricted	4,472,180	5,533,633	-19%
Unrestricted	<u>(9,489,855)</u>	<u>(7,805,026)</u>	<u>-22%</u>
Total net position	<u>\$ 1,751,565</u>	<u>\$ 3,358,307</u>	<u>-48%</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 \$1,751,565 as of June 30, 2020. Net investment in capital assets, totaling \$6,769,240 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 due to debt covenants and legislation that limit the Company's ability to use those assets for day-to-day operations. The (\$9,489,855) in unrestricted net position of governmental activities represents 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 \$11,848,415, 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 decreased as a result of an overall operating deficit generated by the charter schools. Net capital assets increased due to capital asset additions exceeding current year depreciation. Deferred outflows of resources and deferred inflows of resources relate to

the Company's participation in the state's pension plans. The current and other liabilities balance reflects both accounts payable and payroll liability obligations, which decreased due to the timing of payments near year-end. Long-term liabilities include long-term debt obligations of the system, employee compensated absences and the net pension liability. See Note 7 for additional pension plan information. Additional information on the Company's long-term liabilities is presented in Note 6 to the financial statements.

Change in Net Position

The Company's total revenues increased by less than 1% to \$41,240,259, and the total cost of all programs and services increased by 7% to \$42,847,001 – see table below.

	Governmental Activities		Increase
	2020	2019	(Decrease)
Revenues:			
Federal sources	\$ 5,706,119	\$ 6,024,413	-5%
State and local sources	33,916,166	32,977,507	3%
Contributions and other revenue	1,617,974	2,052,498	-21%
Total revenues	<u>41,240,259</u>	<u>41,054,418</u>	<u>0%</u>
Expenses:			
Instruction	24,711,447	22,834,217	8%
Student support services	1,318,992	1,242,607	6%
Instructional media	256,329	325,756	-21%
Instruction and curriculum development	1,385,114	1,520,982	-9%
Instructional staff training	332,197	318,125	4%
Instruction-related technology	408,611	503,834	-19%
Board	573,608	171,201	235%
General administration	619,204	764,715	-19%
School administration	3,434,467	3,060,288	12%
Facilities acquisition and construction	509,854	353,507	44%
Fiscal services	395,333	385,101	3%
Food services	2,861,064	2,767,656	3%
Central services	176,373	136,629	29%
Pupil transportation	2,231,370	2,144,781	4%
Operation of plant	2,894,704	2,877,609	1%
Maintenance of plant	79,299	69,420	14%
Administrative technology services	69,078	69,329	0%
Community services	495,376	575,831	-14%
Interest	94,581	102,438	-8%
Total expenses	<u>42,847,001</u>	<u>40,224,026</u>	<u>7%</u>
Impairment gain on hurricane damage, net of insurance recovery	-	148,496	-100%
Change in net position	<u><u>\$ (1,606,742)</u></u>	<u><u>\$ 978,888</u></u>	<u><u>-264%</u></u>

The majority of the Company's revenue is provided through the state's FEFP, state categorical educational programs and local property taxes (82% of the Company's total governmental revenues) to fund current operations. Revenues from state and local sources increased due to an increase in student enrollment, offset by a decrease in the state appropriation for hurricane relief efforts. The Company received approximately 14% of its total revenues from federal sources – a combination of federal entitlement revenues, National School Breakfast and Lunch Program and E-rate funding in fiscal 2020. A decrease in the National School Breakfast and Lunch Program and E-rate funding, offset by an increase in the Charter School Startup Grant awarded to the Company for Edward W Bok Academy North accounts for the majority of the decrease in revenues from federal sources. The remaining portion of the Company's revenue (4%) is the result of contributions and program revenue, which decreased due to a decrease in donations from the Lake Wales Charter Schools Foundation, a decrease in after-school program fees and a non-recurring insurance loss recovery. The decrease in after-school program fees was primarily the result of the closure of school facilities and transition to remote learning after the coronavirus outbreak.

Instruction and instruction-related activities represent 66% of the Company's expenses, which increased approximately 6% during fiscal 2020, 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, facilities acquisition and construction, finance, food services, central services, transportation, operation and maintenance of plant, administrative technology services, community services and interest expense accounted for 34% of the total expenses. These administrative and business support functions increased 7% compared to last year. The impairment gain on hurricane damage, net of insurance recovery decreased as the final payment of insurance proceeds was received in the prior year. Overall, total governmental expenses exceeded total revenues during 2020 causing a net position decrease of \$1,606,742 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 \$9,434,575, which is a decrease from the prior year. Both revenues and expenditures changed overall 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. The special revenue fund budget amendments were performed to adjust the budget allocations to reflect the final approved federal awards from the state.

For the year ended June 30, 2020, actual general fund revenues and expenditures were not significantly different from the final budgeted amounts.

For the year ended June 30, 2020, actual special revenue fund revenues were approximately \$749,000 below the budgeted amounts, which represents an 11% budget variance. This variance is a result of lower than anticipated spending from the entitlement programs. Actual special revenue fund expenditures were approximately \$877,000 below budgeted amounts, which represents a 13% budget variance, primarily due to the decrease in revenues. Remaining funds from entitlement programs are rolled forward to the subsequent year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2020, the Company had invested \$10,315,772 in capital assets (net of accumulated depreciation). See table below:

	Governmental Activities		Increase (Decrease)
	2020	2019	
Land	\$ 769,882	\$ 707,882	9%
Construction in progress	-	1,506,353	-100%
Improvements other than buildings	1,735,203	1,521,726	14%
Buildings	9,580,704	6,043,189	59%
Furniture, fixtures and equipment	5,093,608	5,599,821	-9%
Motor vehicles	775,103	775,103	0%
Computer software	352,094	596,676	-41%
Less accumulated depreciation	<u>(7,990,822)</u>	<u>(7,797,586)</u>	<u>-2%</u>
Total capital assets, net	<u>\$ 10,315,772</u>	<u>\$ 8,953,164</u>	<u>15%</u>

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

- Edward W. Bok Academy administrative building construction - \$950,455
- Edward W. Bok Academy North building - \$383,000
- Computer equipment and software - \$242,740
- Food service equipment - \$206,463
- Projectors and interactive boards - \$83,274
- Edward W. Bok Academy North land - \$62,000
- Cafeteria flooring - \$59,745
- Playground equipment and installation - \$53,782
- Legion Field improvements - \$33,175
- Office equipment - \$24,460

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

- Computer equipment - \$540,371
- Projectors and interactive boards - \$98,853
- Copiers - \$46,070
- Security system - \$14,025
- School bus - \$13,000
- Telephone system - \$11,066

The Company's fiscal year 2021 capital budget does not include significant spending related to capital projects. More detailed information about the Company's capital assets is presented in Note 4 to the financial statements.

Long-term Debt

As of June 30, 2020, the Company had \$3,546,532 in borrowings outstanding, as compared to \$3,323,464 in the prior year. The increase in long-term liabilities is primarily due to new borrowings for the acquisition of the Edward W. Bok Academy North facility, offset by principal payments made on the outstanding debt. More detailed information about the Company's long-term liabilities is presented in Note 6 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 2021:

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

Amounts available for appropriation in the general fund are \$36,448,116, an increase of 5% from the actual 2020 amount of \$34,630,086. 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 2020 and February 2021 student counts. The fiscal year 2021 budget incorporates more students from the official membership funded in 2020, primarily due to the addition of the 8th grade to Edward W. Bok Academy North. The budget is subject to adjustments 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. Despite flat revenue projections in state per pupil funding, an increase in the student membership will result in an increase in the Company's state and local operating revenue for 2021.

Budgeted general fund expenditures are expected to increase to \$36,448,116, or about 5%, from the fiscal 2020 actual figure of \$34,640,171. The increased expenditure base includes resources allocated for salary increases, the rising cost of health care and other fixed recurring costs for Company operations. The Company 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 2021.

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, 2020, 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, 2020, 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 – 8, 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* 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 January 25, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

BKHM, P.A.

Winter Park, Florida
January 25, 2021

LAKE WALES CHARTER SCHOOLS, INC.

STATEMENT OF NET POSITION

JUNE 30, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 8,699,620
Restricted cash	2,012,701
Accounts receivable	1,099,659
Prepaid expenses and other current assets	36,435
Capital assets, net	<u>10,315,772</u>
Total assets	22,164,187
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows of resources	<u>7,057,401</u>
Total assets and deferred outflows of resources	<u><u>\$ 29,221,588</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 2,131,534
Unearned revenue	25,175
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences payable	1,208,655
Notes payable	246,457
Portion due or payable after one year:	
Notes payable	3,300,075
Net pension liability	<u>18,631,263</u>
Total liabilities	<u>25,543,159</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows of resources	<u>1,926,864</u>
NET POSITION	
Net investment in capital assets	6,769,240
Restricted for:	
Food service	1,251,268
Start-up school capital improvements	1,208,211
Certificate of deposit serving as collateral for note payable	2,012,701
Unrestricted	<u>(9,489,855)</u>
Total net position	<u>1,751,565</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 29,221,588</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, 2020

	<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	\$ 24,711,447	\$ 430,285	\$ 1,416,263	\$ -	\$ (22,864,899)	\$ (22,864,899)
Student support services	1,318,992	-	287,224	-	(1,031,768)	(1,031,768)
Instructional media	256,329	-	-	-	(256,329)	(256,329)
Instruction and curriculum development	1,385,114	-	1,243,914	-	(141,200)	(141,200)
Instructional staff training	332,197	-	144,876	-	(187,321)	(187,321)
Instruction-related technology	408,611	-	-	-	(408,611)	(408,611)
Board	573,608	-	-	-	(573,608)	(573,608)
General administration	619,204	-	29,850	-	(589,354)	(589,354)
School administration	3,434,467	-	1,472	-	(3,432,995)	(3,432,995)
Facilities acquisition and construction	509,854	-	-	-	(509,854)	(509,854)
Fiscal services	395,333	-	-	-	(395,333)	(395,333)
Food services	2,861,064	322,983	1,890,985	-	(647,096)	(647,096)
Central services	176,373	-	-	-	(176,373)	(176,373)
Pupil transportation	2,231,370	9,581	32,120	-	(2,189,669)	(2,189,669)
Operation of plant	2,894,704	-	730	-	(2,893,974)	(2,893,974)
Maintenance of plant	79,299	-	8,158	-	(71,141)	(71,141)
Administrative technology services	69,078	-	-	-	(69,078)	(69,078)
Community services	495,376	107,090	-	-	(388,286)	(388,286)
Interest	94,581	-	-	-	(94,581)	(94,581)
Total primary government	\$ 42,847,001	\$ 869,939	\$ 5,055,592	\$ -	(36,921,470)	(36,921,470)
General revenues:						
Federal sources					650,527	650,527
State and local sources					33,916,166	33,916,166
Contributions and other revenue					748,035	748,035
Total general revenues					35,314,728	35,314,728
Change in net position					(1,606,742)	(1,606,742)
Net position at beginning of year					3,358,307	3,358,307
Net position at end of year					\$ 1,751,565	\$ 1,751,565

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

LAKE WALES CHARTER SCHOOLS, INC.
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 6,711,370	\$ 764,020	\$ 1,224,230	\$ 8,699,620
Restricted cash	2,012,701	-	-	2,012,701
Accounts receivable	70,837	718,711	310,111	1,099,659
Due from capital projects fund	315,847	-	-	315,847
Prepaid expenditures and other current assets	36,435	-	-	36,435
Total assets	<u>\$ 9,147,190</u>	<u>\$ 1,482,731</u>	<u>\$ 1,534,341</u>	<u>\$ 12,164,262</u>
LIABILITIES				
Accounts payable and accrued expenditures	\$ 1,880,886	\$ 206,288	\$ 44,360	\$ 2,131,534
Unearned revenue	-	25,175	-	25,175
Due to general fund	-	-	315,847	315,847
Total liabilities	<u>1,880,886</u>	<u>231,463</u>	<u>360,207</u>	<u>2,472,556</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue on long-term receivables	-	-	257,131	257,131
FUND BALANCES				
Nonspendable:				
Prepaid expenditures and other current assets	36,435	-	-	36,435
Restricted for:				
Food service	-	1,251,268	-	1,251,268
Start-up school capital improvements	-	-	1,208,211	1,208,211
Certificate of deposit serving as collateral for note payable	2,012,701	-	-	2,012,701
Unassigned	5,217,168	-	(291,208)	4,925,960
Total fund balances	<u>7,266,304</u>	<u>1,251,268</u>	<u>917,003</u>	<u>9,434,575</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,147,190</u>	<u>\$ 1,482,731</u>	<u>\$ 1,534,341</u>	<u>\$ 12,164,262</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, 2020

Total fund balances - total governmental funds	\$	9,434,575
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Amounts reported for governmental activities in the statement of net position are different because:

Receivables not expected to be received within 60 days of fiscal year end are not considered "available" revenue in the governmental funds and, therefore, are reported as deferred inflows. In the Statement of Net Position, which is presented on the accrual basis, no deferral is reported since the revenue has already been fully recognized in the Statement of Activities.		257,131
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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 \$18,306,594, and the accumulated depreciation is \$7,990,822.		10,315,772
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Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(1,208,655)
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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		7,057,401
Net pension liability		(18,631,263)
Pension related deferred inflows of resources		(1,926,864)

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		(3,546,532)
Total net position - governmental activities	\$	1,751,565

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, 2020

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Federal sources	\$ -	\$ 5,706,119	\$ -	\$ 5,706,119
State and local sources	33,366,645	37,176	512,345	33,916,166
Contributions and other revenue	1,263,441	323,010	71,523	1,657,974
Total revenues	34,630,086	6,066,305	583,868	41,280,259
EXPENDITURES				
Current:				
Instruction	21,365,832	1,416,263	-	22,782,095
Student support services	1,027,110	287,224	-	1,314,334
Instructional media	253,902	-	-	253,902
Instruction and curriculum development	137,575	1,243,914	-	1,381,489
Instructional staff training	186,552	144,876	-	331,428
Instruction-related technology	369,313	-	-	369,313
Board	573,608	-	-	573,608
General administration	545,320	68,109	-	613,429
School administration	2,982,264	1,472	-	2,983,736
Facilities acquisition and construction	415,897	23,175	1,060,697	1,499,769
Fiscal services	383,713	-	-	383,713
Food services	370,873	2,296,999	-	2,667,872
Central services	173,080	-	-	173,080
Pupil transportation	2,189,672	32,120	-	2,221,792
Operation of plant	2,762,620	730	46,852	2,810,202
Maintenance of plant	31,558	8,158	-	39,716
Administrative technology services	58,230	-	-	58,230
Community services	466,788	-	-	466,788
Debt service:				
Principal	29,270	-	192,662	221,932
Interest	5,243	-	89,338	94,581
Capital outlay	311,751	594,741	141,628	1,048,120
Total expenditures	34,640,171	6,117,781	1,531,177	42,289,129
Deficiency of revenues under expenditures	(10,085)	(51,476)	(947,309)	(1,008,870)
OTHER FINANCING SOURCES (USES)				
Proceeds from note payable	445,000	-	-	445,000
Operating transfer in	55,786	-	-	55,786
Operating transfer out	-	(55,786)	-	(55,786)
Total other financing sources (uses)	500,786	(55,786)	-	445,000
Net changes in fund balances	490,701	(107,262)	(947,309)	(563,870)
Fund balances at beginning of year	6,775,603	1,358,530	1,864,312	9,998,445
Fund balances at end of year	\$ 7,266,304	\$ 1,251,268	\$ 917,003	\$ 9,434,575

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, 2020

Net changes in fund balances - total governmental funds \$ (563,870)

Amounts reported for governmental activities in the statement of activities are different because:

Receivables not expected to be received within 60 days of fiscal year end are not considered "available" revenue in the governmental funds and, therefore, are reported as deferred inflows. In the Statement of Net Position, which is presented on the accrual basis, no deferral is reported since the revenue has already been fully recognized in the Statement of Activities. (40,000)

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 capital outlays (\$2,443,575) exceed depreciation expense (\$1,079,811) in the current period. 1,363,764

In the statement of activities, the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets disposed. (1,156)

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. (174,265)

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. (1,968,147)

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. 221,932

Proceeds from long-term liabilities are reported as other financing sources in the governmental funds because they provide current financial resources. They are reported as an increase in long-term liabilities in the statement of net position. (445,000)

Change in net position of governmental activities \$ (1,606,742)

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, 2020

	Agency Fund
ASSETS	
Cash and cash equivalents	\$ 333,152
Accounts receivable	1,800
	<u>\$ 334,952</u>
Total assets	\$ 334,952
LIABILITIES	
Due to student groups	\$ 334,952
Total liabilities	\$ 334,952

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, 2020

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 seven public charter schools in the Lake Wales, Florida area (Dale R. Fair Babson Park Elementary School, Edward W. Bok Academy, Edward W. Bok Academy North, 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 and Edward W. Bok Academy North) converted from traditional public schools to public charter schools. Edward W. Bok Academy (“Bok South”) commenced formal operations on July 1, 2008. Edward W. Bok Academy North (“Bok North”) commenced formal operations on July 1, 2018. 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:

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

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

LAKE WALES CHARTER SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

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

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

Basis of Presentation

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

The government-wide financial statements report information about the Company as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Company’s assets, deferred outflows of resources, 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.

LAKE WALES CHARTER SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

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.

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.
- Capital Projects Fund – to account for all resources for the acquisition of capital items purchased with capital outlay and state capital appropriation funds, private foundation funds for building construction and insurance proceeds from hurricane damage.

For purposes of these statements, the general, special revenue and capital projects 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, 2020, 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 6. 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.

Accounts Receivable

Accounts receivable consist of amounts due from governmental agencies for various programs and from a private foundation. Allowances are reported when management estimates that accounts may be uncollectible.

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 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. Information relative to changes in long-term liabilities is described in Note 6.

Long-term Liabilities

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 6.

Fund Balance Spending Policy

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

The Charter Schools are individually required by the School Board to maintain an unassigned general fund balance equal to at least 3% of general fund revenues. The Company has an internal fund balance policy to maintain an unassigned general fund balance equal to not less than 10% of budgeted general fund revenues as of June 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.

LAKE WALES CHARTER SCHOOLS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

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 financial statements. This administrative fee is calculated on the FEFP revenue up to 500 students within the system.

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.

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

Income Taxes

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

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 statement of net position and the balance sheet – governmental funds and affect revenues and expenditures for the period presented. Actual results could differ significantly from those estimates.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Subsequent Events

The Company has evaluated subsequent events through January 25, 2021, the date these financial statements were available to be issued.

Recently Issued Accounting Pronouncements

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, 2021. 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.

In June 2017, the GASB issued Statement No. 87, *Leases*, which requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this guidance, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about a school's leasing activities. The new standard is effective for the fiscal year ending June 30, 2022. 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.

2 INTERFUND ACTIVITIES

Due to/from other funds consisted of the following balances as of June 30, 2020:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund	\$ 315,847	\$ -
Capital projects fund	-	315,847
Total interfund	<u>\$ 315,847</u>	<u>\$ 315,847</u>

The amount payable by the capital projects fund to the general fund is to cover temporary cash shortages related to the timing of receipts.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

3 ACCOUNTS RECEIVABLE

Accounts receivable included in the accompanying financial statements include \$1,099,659 in funds receivable from the Lake Wales Charter Schools Foundation and from federal and state agencies under various grants, as follows:

Title I Grants to Local Educational Agencies	\$ 346,154
Lake Wales Charter School Foundation	257,131
National School Lunch Program	138,020
Special Education – Grants to States (IDEA, Part B)	130,068
E-Rate Program	70,403
Charter School Capital Outlay	52,980
Supporting Effective Instruction State Grant	40,860
Education Stabilization Fund	29,453
Student Support and Academic Enrichment	13,283
Education for Homeless Children and Youth	7,827
Reserve Officer Training Corps (ROTC)	6,156
School Improvement Grant	5,820
Other	<u>1,504</u>
Total	<u>\$ 1,099,659</u>

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

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

4 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	<u>Beginning Balance (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 707,882	\$ 62,000	\$ -	\$ 769,882
Construction in progress	<u>1,506,353</u>	<u>-</u>	<u>(1,506,353)</u>	<u>-</u>
Total capital assets not being depreciated at historical cost	<u>2,214,235</u>	<u>62,000</u>	<u>(1,506,353)</u>	<u>769,882</u>
Other capital assets:				
Improvements other than buildings	1,480,265	254,938	-	1,735,203
Buildings	6,740,896	2,839,808	-	9,580,704
Furniture, fixtures and equipment	5,348,649	619,690	(874,731)	5,093,608
Motor vehicles	788,103	-	(13,000)	775,103
Computer software	<u>178,602</u>	<u>173,492</u>	<u>-</u>	<u>352,094</u>
Total other capital assets at historical cost	<u>14,536,515</u>	<u>3,887,928</u>	<u>(887,731)</u>	<u>17,536,712</u>
Less accumulated depreciation for:				
Improvements other than buildings	(562,606)	(278,782)	-	(841,388)
Buildings	(1,342,547)	(219,113)	-	(1,561,660)
Furniture, fixtures and equipment	(5,062,800)	(537,353)	873,575	(4,726,578)
Motor vehicles	(691,217)	(44,563)	13,000	(722,780)
Computer software	<u>(138,416)</u>	<u>-</u>	<u>-</u>	<u>(138,416)</u>
Total accumulated depreciation	<u>(7,797,586)</u>	<u>(1,079,811)</u>	<u>886,575</u>	<u>(7,990,822)</u>
Other capital assets, net	<u>6,738,929</u>	<u>2,808,117</u>	<u>(1,156)</u>	<u>9,545,890</u>
Governmental activities capital assets, net	<u>\$ 8,953,164</u>	<u>\$ 2,870,117</u>	<u>\$ (1,507,509)</u>	<u>\$ 10,315,772</u>

Certain reclassifications were made to the beginning capital asset balances in order to more accurately reflect each category.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 271,079
Student support services	398
Instructional media	358
Instruction and curriculum development	1,743
Instructional staff training	151
Instruction-related technology	39,298
School administration	5,817
Facilities acquisition and construction	405,540
Food services	189,968
Pupil transportation	10,421
Operation of plant	79,753
Maintenance of plant	39,583
Administrative technology services	7,114
Community services	28,588
	<hr/>
Total governmental activities depreciation expense	\$ 1,079,811

5 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, 2020 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.

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)**

Operating Lease Commitments

The Company leases several buses under non-cancelable operating leases. The leases require the Company to pay insurance and other costs. The bus leases expire in August 2023.

The Company also leases certain other equipment from unrelated parties under non-cancelable operating leases. These leases are currently month-to-month.

Aggregate remaining minimum rental commitments as of June 30, 2020 under these leases are summarized as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 439,594
2022	437,244
2023	437,244
2024	<u>121,837</u>
Total	<u>\$ 1,435,919</u>

Lease payments were approximately \$512,000 for the year ended June 30, 2020. Of this amount, approximately \$34,000 is included in school administration, \$438,000 is included in pupil transportation and \$40,000 is included in operation of plant in the accompanying financial statements.

Uncertainty

The extent of the impact and effects of the recent outbreak of the coronavirus on the Company's operations will depend on future developments, including the duration and spread of the outbreak, related travel advisories and restrictions, changes in enrollment and the impact on governmental funding, all of which are highly uncertain and cannot be predicted. While the Company's operations have not been significantly impacted due to the virus to date, if the virus causes significant negative impacts to economic conditions, the Company's operations may be adversely affected.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

6 LONG-TERM LIABILITIES

Long-term liabilities activity during fiscal year 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences	\$ 1,034,390	\$ 174,265	\$ -	\$ 1,208,655	\$ 1,208,655
Notes payable	3,323,464	445,000	(221,932)	3,546,532	246,457
Net pension liability	16,215,446	2,415,817	-	18,631,263	-
Governmental activities, long-term liabilities	<u>\$ 20,573,300</u>	<u>\$ 3,035,082</u>	<u>\$ (221,932)</u>	<u>\$ 23,386,450</u>	<u>\$ 1,455,112</u>

Notes Payable

Notes payable consist of the following as of June 30, 2020:

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.	\$ 2,969,047
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.	132,485
Mortgage note payable to the City of Lake Wales; annual payments of \$28,750; maturity date of November 2039; secured by a first mortgage on the Edward W. Bok Academy North land and building; the note carries a 0% interest rate and is presented net of an imputed interest discount of 2.75%.	<u>445,000</u>
Total long-term debt	3,546,532
Less amount due or payable within one year	<u>(246,457)</u>
Amount due or payable after one year	<u>\$ 3,300,075</u>

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

In connection with the \$2,969,047 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 \$2,969,047 mortgage note payable described above contains certain covenants with which the Company must comply. As of June 30, 2020, the Company was in compliance with all restrictive covenants.

Future debt service requirements related to notes payable are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 246,457	\$ 94,973	\$ 341,430
2022	246,895	94,535	341,430
2023	254,482	86,948	341,430
2024	262,302	79,128	341,430
2025	261,900	71,102	333,002
2026 - 2030	1,311,222	242,529	1,553,751
2031 - 2035	830,214	57,938	888,152
2036 - 2040	133,060	10,690	143,750
Total	<u>\$ 3,546,532</u>	<u>\$ 737,843</u>	<u>\$ 4,284,375</u>

7 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.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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, 2019, 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 is reduced by these amounts.

Total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes. Employer contributions reflected in the financial statements represent contributions specific to each defined benefit plan and do not equal total blended contributions remitted by the employer.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Contribution rates were as follows:

<u>Class or Plan</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (A)</u>
Florida Retirement System, Regular	3%	8.47%
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

The FRS Actuarial Assumption Conference is responsible for setting the assumptions used in the funding valuations of the defined benefit pension plan pursuant to section 216.136(10), Florida Statutes. The Division determines the assumptions in the valuations for GASB 67 reporting purposes. The FRS Pension Plan’s GASB 67 valuation is 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 2019 for the period July 1, 2013, through June 30, 2018. 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 6.90%. 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 3.50% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for the FRS Pension Plan were based on the PUB-2010 base table, projected generationally with Scale MP-2018, and mortality assumptions for the HIS Program 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 2019:

- FRS: The long-term expected rate of return was decreased from 7.00% to 6.90%, and the mortality assumption was changed from the Generational RP-2000 with Projection Scale BB tables to the PUB-2010 base table, projected generationally with Scale MP-2018.
- HIS: The municipal rate used to determine total pension liability was decreased from 3.87% to 3.50%.

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the collective net pension liability if the discount rate was 1% lower or 1% higher than the current discount rate as of June 30, 2019:

School's Proportionate Share of FRS Net Pension Liability			School's Proportionate Share of HIS Net Pension Liability		
1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
5.90%	6.90%	7.90%	2.50%	3.50%	4.50%
\$21,451,477	\$12,409,258	\$ 4,857,478	\$ 7,102,736	\$ 6,222,005	\$ 5,488,453

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, 2019, are shown below (in thousands):

	FRS	HIS
Total pension liability	\$ 198,012,334	\$ 11,491,044
Plan fiduciary net position	(163,573,726)	(302,045)
Net pension liability	<u>\$ 34,438,608</u>	<u>\$ 11,188,999</u>
Plan fiduciary net position as a percentage of the total pension liability	82.61%	2.63%

The total pension liability for the FRS Pension Plan was determined by the plan's actuary and reported in the plan's GASB 67 valuation dated June 30, 2019. 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)**

The HIS actuarial valuation was prepared as of July 1, 2018, and update procedures were used to determine liabilities as of June 30, 2019. 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.

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

As of June 30, 2020, the Company reported a liability of \$18,631,263 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 ended June 30, 2013 through June 30, 2019 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, 2019	0.0360%	0.0556%
June 30, 2018	0.0349%	0.0538%
Change	0.0011%	0.0018%

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.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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, 2019, was 6.4 years for FRS and 7.2 years for HIS.

For the year ended June 30, 2020, the Company recognized pension expense of \$1,968,147. As of June 30, 2020, 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	\$ 811,600	\$ 15,320
Changes of assumptions	3,907,682	508,536
Net difference between projected and actual earnings on pension plan investments	4,015	686,545
Changes in proportion and differences between School contributions and proportionate share of contributions	755,575	716,463
School contributions subsequent to the measurement date	1,578,529	-
Total	\$ 7,057,401	\$ 1,926,864

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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
2021	\$ 1,312,342
2022	476,789
2023	909,348
2024	580,757
2025	172,458
Thereafter	100,314

8 RESTRICTED NET POSITION AND FUND BALANCE

Restricted net position and fund balance represents amounts that have been collected or are receivable by the Company for specific purposes, which are restricted as to the use of such funds. Included in the restricted fund balance is \$1,208,211 in the capital projects fund as of June 30, 2020. Of this amount, \$1,111,978 represents the unspent portion of the fiscal 2018 state capital appropriation, which must be used for start-up school capital improvements, and \$96,233 represents the unspent portion of the fiscal 2020 capital outlay allocation, which must be used for capital improvements at Edward W. Bok Academy North.

LAKE WALES CHARTER SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

9 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	\$ 20,375,355
Class size reduction	4,914,075
Discretionary millage funds	1,335,440
Supplemental academic instruction	1,312,747
Discretionary tax equalization funds	1,254,584
ESE guaranteed allocation	1,098,113
Transportation	864,269
Capital outlay	512,345
Best and brightest	437,206
Instructional materials	378,505
Funds compression allocation	256,250
Safe schools	251,716
Advanced placement bonus	251,675
Reading allocation	189,503
School recognition	158,825
Mental health assistance allocation	121,709
Teacher lead pay	75,816
Career and professional education bonus	71,814
Other state revenue	37,644
Digital classroom allocation	14,151
Discretionary lottery funds	4,424
	<hr/>
Total	<u><u>\$ 33,916,166</u></u>

The administration fee paid to the School Board during the year ended June 30, 2020 totaled approximately \$157,000 which is included in general administration expense/expenditure in the accompanying financial statements.

10 CAMPUS FACILITIES

Title to the school buildings and facilities and other capital assets acquired prior to July 1, 2004 remains with the School Board. Florida Statutes provide that the use of school buildings and facilities be furnished to charter schools on the same basis as made available to other public schools in the district. No rental or leasing fee may be charged by the district school board to the charter school or to the parents and teachers who organize the charter school.

In management's opinion, the value of facilities utilized by the Charter Schools is significant; therefore, any substantial changes in Florida Statutes related to facilities used by conversion charter schools could have a material effect on the Company's operations.

LAKE WALES CHARTER SCHOOLS, INC.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2020

	<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	\$ 32,412,664	\$ 32,983,497	\$ 33,366,645	\$ 383,148
Contributions and other revenue	1,395,966	1,586,410	1,263,441	(322,969)
Total revenues	<u>33,808,630</u>	<u>34,569,907</u>	<u>34,630,086</u>	<u>60,179</u>
EXPENDITURES				
Current:				
Instruction	21,036,580	21,262,878	21,365,832	(102,954)
Student support services	1,019,052	950,900	1,027,110	(76,210)
Instructional media	275,159	258,902	253,902	5,000
Instruction and curriculum development	103,764	127,145	137,575	(10,430)
Instructional staff training	188,049	225,384	186,552	38,832
Instruction-related technology	406,613	385,795	369,313	16,482
Board	106,050	107,550	573,608	(466,058)
General administration	666,712	605,365	545,320	60,045
School administration	3,181,576	3,331,057	2,982,264	348,793
Facilities acquisition and construction	-	65,165	415,897	(350,732)
Fiscal services	402,507	394,032	383,713	10,319
Food services	-	-	370,873	(370,873)
Central services	77,399	80,399	173,080	(92,681)
Pupil transportation	2,164,065	2,298,867	2,189,672	109,195
Operation of plant	2,749,384	2,939,507	2,762,620	176,887
Maintenance of plant	14,500	500	31,558	(31,058)
Administrative technology services	58,544	58,613	58,230	383
Community services	433,443	443,349	466,788	(23,439)
Debt service:				
Principal	29,270	29,270	29,270	-
Interest	5,242	5,242	5,243	(1)
Capital outlay	890,721	999,987	311,751	688,236
Total expenditures	<u>33,808,630</u>	<u>34,569,907</u>	<u>34,640,171</u>	<u>(70,264)</u>
Deficiency of revenues under expenditures	<u>-</u>	<u>-</u>	<u>(10,085)</u>	<u>(10,085)</u>
OTHER FINANCING SOURCES				
Proceeds from note payable	-	-	445,000	445,000
Operating transfer in	-	-	55,786	55,786
Total other financing sources	<u>-</u>	<u>-</u>	<u>500,786</u>	<u>500,786</u>
Net changes in fund balance	-	-	490,701	490,701
Fund balance at beginning of year	6,775,603	6,775,603	6,775,603	-
Fund balance at end of year	<u>\$ 6,775,603</u>	<u>\$ 6,775,603</u>	<u>\$ 7,266,304</u>	<u>\$ -</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, 2020

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Federal sources	\$ 6,326,324	\$ 6,379,950	\$ 5,706,119	\$ (673,831)
State and local sources	429,363	435,000	37,176	(397,824)
Contributions and other revenue	-	-	323,010	323,010
Total revenues	<u>6,755,687</u>	<u>6,814,950</u>	<u>6,066,305</u>	<u>(748,645)</u>
EXPENDITURES				
Current:				
Instruction	2,450,960	2,799,865	1,416,263	1,383,602
Student support services	357,524	274,723	287,224	(12,501)
Instruction and curriculum development	408,721	407,064	1,243,914	(836,850)
Instructional staff training	65,728	139,885	144,876	(4,991)
General administration	48,176	32,706	68,109	(35,403)
School administration	-	-	1,472	(1,472)
Facilities acquisition and construction	-	-	23,175	(23,175)
Food services	3,237,771	3,319,972	2,296,999	1,022,973
Pupil transportation	60,700	20,781	32,120	(11,339)
Operation of plant	-	-	730	(730)
Maintenance of plant	-	-	8,158	(8,158)
Capital outlay	-	-	594,741	(594,741)
Total expenditures	<u>6,629,580</u>	<u>6,994,996</u>	<u>6,117,781</u>	<u>877,215</u>
Excess (deficiency) of revenues over (under) expenditures	126,107	(180,046)	(51,476)	128,570
OTHER FINANCING USES				
Operating transfer out	-	-	(55,786)	(55,786)
Net changes in fund balance	126,107	(180,046)	(107,262)	72,784
Fund balance at beginning of year	<u>1,358,530</u>	<u>1,358,530</u>	<u>1,358,530</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,484,637</u>	<u>\$ 1,178,484</u>	<u>\$ 1,251,268</u>	<u>\$ 72,784</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**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010				
Florida Retirement System (FRS) Pension Plan														
Company's proportion of the net pension liability (asset)	0.0360%	0.0349%	0.0355%	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)	\$ 12,409,258	\$ 10,526,445	\$ 10,498,024	\$ 9,315,030	\$ 4,961,155	\$ 2,323,370								
Company's covered-employee payroll	\$ 18,618,144	\$ 17,588,272	\$ 17,568,119	\$ 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	67%	60%	60%	53%	29%	14%								
Plan fiduciary net position as a percentage of the total pension liability (asset)	83%	84%	84%	85%	92%	96%								
Retiree Health Insurance Subsidy (HIS) Program														
Company's proportion of the net pension liability (asset)	0.0556%	0.0538%	0.0550%	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)	\$ 6,222,005	\$ 5,689,001	\$ 5,876,383	\$ 6,579,392	\$ 5,585,800	\$ 5,123,442								
Company's covered-employee payroll	\$ 18,618,144	\$ 17,588,272	\$ 17,568,119	\$ 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	33%	32%	33%	37%	33%	31%								
Plan fiduciary net position as a percentage of the total pension liability (asset)	3%	2%	2%	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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Florida Retirement System (FRS) Pension Plan										
Contractually required contribution	\$ 1,242,855	\$ 1,117,283	\$ 995,984	\$ 923,921	\$ 899,649	\$ 936,467	\$ 834,089			
Contributions in relation to the contractually required contribution	1,242,855	1,117,283	995,984	923,921	899,649	936,467	834,089			
Contribution deficiency (excess)	<u>\$ -</u>									
Company's covered-employee payroll	\$ 20,234,992	\$ 18,618,144	\$ 17,588,272	\$ 17,568,119	\$ 17,563,729	\$ 16,873,854	\$ 16,265,928			
Contributions as a percentage of covered-employee payroll	6%	6%	6%	5%	5%	6%	5%			
Retiree Health Insurance Subsidy (HIS) Program										
Contractually required contribution	\$ 335,674	\$ 308,787	\$ 291,490	\$ 290,856	\$ 289,358	\$ 209,370	\$ 187,707			
Contributions in relation to the contractually required contribution	335,674	308,787	291,490	290,856	289,358	209,370	187,707			
Contribution deficiency (excess)	<u>\$ -</u>									
Company's covered-employee payroll	\$ 20,234,992	\$ 18,618,144	\$ 17,588,272	\$ 17,568,119	\$ 17,563,729	\$ 16,873,854	\$ 16,265,928			
Contributions as a percentage of covered-employee payroll	2%	2%	2%	2%	2%	1%	1%			

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

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

See independent auditor's report.

LAKE WALES CHARTER SCHOOLS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Grant Period	Expenditures
United States Department of Agriculture / Florida Department of Agriculture and Consumer Services / School Breakfast Program	10.553	7/1/2019 - 6/30/2020	\$ 473,112
United States Department of Agriculture / Florida Department of Education / National School Lunch Program	10.555	7/1/2019 - 6/30/2020	1,395,865
United States Department of Agriculture / Florida Department of Education / Summer Food Service Program for Children	10.559	7/1/2019 - 6/30/2020	<u>215,050</u>
Total Child Nutrition Cluster			<u>2,084,027</u>
United States Department of Agriculture / Emergency Food Assistance Program (Food Commodities)	10.569	7/1/2019 - 6/30/2020	<u>177,831</u>
Total Food Distribution Cluster			<u>177,831</u>
United States Department of Education / Florida Department of Education / Title I Grants to Local Educational Agencies	84.010	7/1/2019 - 6/30/2020	1,543,100
United States Department of Education / Florida Department of Education / Title I Grants to Local Educational Agencies (Transportation)	84.010	7/1/2019 - 6/30/2020	<u>12,063</u>
Total Title I Grants to Local Educational Agencies			<u>1,555,163</u>
United States Department of Education / Florida Department of Education / Special Education Grants to States (IDEA, Part B)	84.027	7/1/2019 - 6/30/2020	<u>811,922</u>
Total Special Education Cluster (IDEA)			<u>811,922</u>
United States Department of Education / Florida Department of Education / Migrant Education State Grant Program	84.011	7/1/2019 - 6/30/2020	27,977
United States Department of Education / Florida Department of Education / Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	7/1/2019 - 6/30/2020	49,019

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	Grant Period	Expenditures
United States Department of Education / Florida Department of Education / Education for Homeless Children and Youth	84.196	7/1/2019 - 6/30/2020	33,369
United States Department of Education / Florida Department of Education / Charter Schools (Start-Up Grant)	84.282	7/1/2019 - 6/30/2020	365,015
United States Department of Education / Florida Department of Education / English Language Acquisition State Grants	84.365	7/1/2019 - 6/30/2020	14,973
United States Department of Education / Florida Department of Education / Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	7/1/2019 - 6/30/2020	154,510
United States Department of Education / Florida Department of Education / Student Support and Academic Enrichment Program	84.424	7/1/2019 - 6/30/2020	133,833
United States Department of Education / Florida Department of Education / Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) - Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	6/1/2020 - 9/30/2022	29,453
United States Department of Education / Florida Department of Education / Disaster Recovery Assistance for Education	84.938	7/1/2019 - 6/30/2020	55,786
United States Department of Defense / Florida Department of Education / Reserve Officer Training Corps (ROTC)	N/A	7/1/2019 - 6/30/2020	55,175
United States Department of Education / Office of Non-Public Education / E-Rate Program - Discounted Telecommunications Services	N/A	7/1/2019 - 6/30/2020	158,066
Total Expenditures of Federal Awards			<u>\$ 5,706,119</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, 2020

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, 2020, 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, 2020, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated January 25, 2021.

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") as a basis for designing 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 financial statements. 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.



Winter Park, Florida
January 25, 2021

**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, 2020. 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, 2020.

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
January 25, 2021

LAKE WALES CHARTER SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

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, 10.555, 10.559	7/1/2019 - 6/30/2020	Child Nutrition Cluster
84.010	7/1/2019 - 6/30/2020	Title I Grants to Local Educational Agencies

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

Auditee qualified as a low-risk auditee? Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

None

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV - STATUS OF PRIOR YEAR AUDIT FINDINGS

There were no prior year audit findings.