

THE CHARTER SCHOOLS OF EXCELLENCE, INC.

#5271 DAVIE 1 CAMPUS

*A Charter School under The Charter Schools of
Excellence, Inc. and a Component Unit of
The School Board of Broward County, Florida*

BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2015

Charles A. Krblich, P.A.

Certified Public Accountants

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Charles A. Krblich, P. A.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Charter Schools of Excellence, Inc.
Fort Lauderdale, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus (the "School"), a charter school under The Charter Schools of Excellence, Inc. and a component unit of The School Board of Broward County, Florida, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note A to the financial statements, in fiscal year 2015, the School adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

As described in Note A, the accompanying financial statements referred to above present only the financial position of The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus at June 30, 2015, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of The Charter Schools of Excellence, Inc.

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 3 through 6 and required supplementary information on pages 27 through 31, as listed in the table of contents, 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 inquires 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Charter Schools of Excellence, Inc. #5271 Davie 1 Campus's internal control over financial reporting and compliance.



Fort Lauderdale, Florida
October 26, 2015

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of The School Board of Broward County, Florida*
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus's management discussion and analysis presents an overview of the School's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the School's financial statements beginning on page 7.

FINANCIAL HIGHLIGHTS

- The total net position increased \$23 thousand before adjustment for prior year and GASB 68 compliance. Liabilities exceeded assets (net position) by \$102 thousand; net position consists of an investment in capital assets of \$380 thousand and unrestricted net position deficit of \$481 thousand.
- General revenues accounted for \$1,479 thousand, or 87% of all revenues. Program specific revenues consisting of grants, contributions and charges for services accounted for \$222 thousand or 13% of revenues.
- On a *funds* basis, there was an excess of expenditures over revenues of \$310 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements are comprised of three components: 1) government-wide (component unit) financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the School, with the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *statement of activities* presents information showing how the net position of the School changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of cash flows*.

The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund Financial Statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School currently utilizes a General Fund.

Governmental funds. *Governmental funds* are used to account for essentially the same function as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating government's near-term financing requirements.

Because the focus of governmental funds is narrower than the government-wide (component unit) financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance provide detailed information about the School's most significant funds. The School has one fund, a General Fund.

The School adopts an annual budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 9 through 12 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities exceeded assets by \$102 thousand at the close of the most recent fiscal year.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus's Net Position

	Component Unit Activities	
	2015	2014
Current and other assets	\$ 20,109	\$ 32,590
Capital assets, net	564,395	219,436
Total assets	584,504	252,026
Deferred outflows of resources	90,423	-
Other liabilities	285,361	136,377
Noncurrent liabilities	391,496	-
Total liabilities	676,857	136,377
Deferred inflows of resources	99,584	-
Net position:		
Net investment in capital assets	379,922	219,436
Unrestricted	(481,436)	(103,787)
Total net position	\$ (101,514)	\$ 115,649

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus's Changes in Net Position

	Component Unit Activities		Increase (Decrease)
	2015	2014	From Fiscal 2014
Revenues			
Program revenues			
Charges for services	\$ 80,304	\$ 55,303	\$ 25,001
Operating grants and contributions	148,548	93,718	54,830
General revenues			
State sources	1,375,085	862,181	512,904
Other local revenues	103,760	66,139	37,621
Total revenues	<u>1,707,697</u>	<u>1,077,341</u>	<u>630,356</u>
Expenses			
Instructional	715,661	473,717	241,944
Pupil personnel services	6,945	7,174	(229)
Instruction and curriculum development	1,049	1,425	(376)
Instructional staff training services	-	3,209	(3,209)
General administration	111,335	97,737	13,598
School administration	254,927	187,652	67,275
Facilities acquisition and construction	105,365	69,328	36,037
Fiscal services	110,744	95,067	15,677
Food services	79,152	50,500	28,652
Central services	135,238	93,297	41,941
Pupil transportation services	67,734	46,195	21,539
Operation of plant	67,356	47,439	19,917
Maintenance of plant	18,375	9,784	8,591
Interest on long-term debt	10,528	-	10,528
Total expenses	<u>1,684,409</u>	<u>1,182,524</u>	<u>501,885</u>
Changes in net position	23,288	(105,183)	128,471
Net position – beginning, as originally stated	115,649	220,832	(105,183)
Prior period adjustment	(240,451)	-	(240,451)
Net position – beginning, as restated	<u>(124,802)</u>	<u>220,832</u>	<u>(345,634)</u>
Net position – ending	<u>\$ (101,514)</u>	<u>\$ 115,649</u>	<u>\$ (217,163)</u>

Prior year amounts are not restated for the effects of GASB 68.

- The largest dollar increase in revenues was from state sources due to an increase in FEFP funding.
- The largest increase in expenses was from instructional and the largest decrease was in instructional staff training services.

Financial Analysis of the School's Funds

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the School's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School's financing requirements.

General fund. The General Fund is the chief operating fund of the School. At the end of the fiscal year, the General Fund had a deficit balance of \$265 thousand.

- Total revenues increased by \$630 thousand (37%), principally due from an increase in FEFP revenue.
- Expenditures for general school purposes increased by \$502 thousand (30%)

General Fund Budgetary Highlights

- Total revenues were less than budgeted amounts by \$231 thousand (12%). Grants and other revenues were over the amounts budgeted by \$101 thousand.
- Budgeted expenditures were exceeded primarily in capital outlay, debt service and general administration.

Capital Asset Administration

Capital assets at June 30, 2015 and 2014 are outlined below:

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus's Capital Assets
(Net of depreciation)

	Component Unit Activities	
	2015	2014
Construction in progress, not being depreciated	\$ -	\$ 110,829
Leasehold improvements, net of depreciation	543,145	74,622
Furniture, fixtures and equipment, net of depreciation	21,250	33,985
Total capital assets, net of depreciation	\$ 564,395	\$ 219,436

Additional information on the School's capital assets can be found in Note B to the financial statements. (See page 19 of this report).

Requests for Information

This financial report is designed to provide a general overview of The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, The Charter Schools of Excellence, Inc., 1217 Southeast 3rd Avenue, Fort Lauderdale, Florida 33316.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of The School Board of Broward County, Florida*

Statement of Net Position

June 30, 2015

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 8,517
Accounts receivable	2,005
Deposits	9,587
Capital assets, net	<u>564,395</u>
Total assets	<u>584,504</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension liability	<u>90,423</u>
LIABILITIES	
Accounts payable and accrued expenditures/expenses	7,884
Accrued payroll, payroll taxes and withholdings	43,007
Due to other agencies	234,470
Long-term liabilities	
Due within one year	
Note payable	82,440
Due after one year	
Note payable	102,033
Net pension liability	<u>207,023</u>
Total liabilities	<u>676,857</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension liability	<u>99,584</u>
NET POSITION	
Net investment in capital assets	379,922
Unrestricted	<u>(481,436)</u>
Total net position	<u><u>\$ (101,514)</u></u>

See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
A Charter School under The Charters School of Excellence, Inc. and
a Component Unit of The School Board of Broward County, Florida
Statement of Activities

For the year ended June 30, 2015

	Program Revenues			Net (Expenses) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions Capital Grants and Contributions	
PROGRAM EXPENSES AND REVENUES:				
COMPONENT UNIT ACTIVITIES:				
Instructional	\$ 715,661	\$ 65,441	\$ -	\$ (650,220)
Pupil personnel services	6,945	-	-	(6,945)
Instruction and curriculum development	1,049	-	-	(1,049)
Instructional staff training services	-	-	-	-
General administration	111,335	-	-	(111,335)
School administration	254,927	-	-	(254,927)
Facilities acquisition and construction	105,365	-	63,330	(42,035)
Fiscal services	110,744	-	-	(110,744)
Food services	79,152	14,863	85,218	20,929
Central services	135,238	-	-	(135,238)
Pupil transportation services	67,734	-	-	(67,734)
Operation of plant	67,356	-	-	(67,356)
Maintenance of plant	18,375	-	-	(18,375)
Interest on long-term debt	10,528	-	-	(10,528)
	<u>\$ 1,684,409</u>	<u>\$ 80,304</u>	<u>\$ 85,218</u>	<u>(1,455,557)</u>
			<u>63,330</u>	
GENERAL REVENUES:				
State Sources - categorical programs and other				1,375,085
Other local sources				103,760
Total general revenues				<u>1,478,845</u>
Change in net position				23,288
Total net position, beginning of year, as originally stated				115,649
Prior period adjustment				<u>(240,451)</u>
Total net position, beginning of year, as restated				<u>(124,802)</u>
Total net position, end of year				<u>\$ (101,514)</u>

See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of The School Board of Broward County, Florida*
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2015

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 8,517
Accounts receivable	2,005
Deposits	<u>9,587</u>
Total assets	<u><u>\$ 20,109</u></u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and accrued expenditures/expenses	\$ 7,884
Accrued payroll, payroll taxes and withholdings	43,007
Due to other agencies	<u>234,470</u>
Total liabilities	<u>285,361</u>
 FUND BALANCE	
Non-spendable	9,587
Spendable - unassigned	<u>(274,839)</u>
Total fund balance	<u>(265,252)</u>
Total liabilities and fund balance	<u><u>\$ 20,109</u></u>

See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of The School Board of Broward County, Florida*
RECONCILIATION of the BALANCE SHEET - GOVERNMENTAL FUND
to the STATEMENT OF NET POSITION
June 30, 2015

Total fund balance - governmental fund	\$ (265,252)
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in component unit activities are not financial resources and are not reported in the fund. Total cost of assets is \$927,737 and the accumulated depreciation is \$363,342.	564,395
Non-current (long-term) liabilities are not due and payable in the current period and therefore are not reported in the fund.	(184,473)
Deferred outflows of resources related to pension liability	90,423
Noncurrent liabilities, including net pension liability, are not due and payable in the current period and, therefore, are not reported in the fund.	(207,023)
Deferred inflows of resources related to pension liability	<u>(99,584)</u>
Total net position - governmental activities	\$ <u>(101,514)</u>

See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of The School Board of Broward County, Florida
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
 For the year ended June 30, 2015

	<u>General Fund</u>
REVENUES:	
State sources	
Categorical programs and other	\$ 1,375,085
Capital outlay funding	<u>63,330</u>
Total state sources	<u>1,438,415</u>
 Local sources	
Fundraising and contributions, net	11,952
Grants and other	<u>257,330</u>
Total local sources	<u>269,282</u>
Total Revenues	1,707,697
 EXPENDITURES:	
Current	
Instructional	665,704
Pupil personnel services	6,945
Instruction and curriculum development	1,049
Instructional staff training services	-
General administration	111,335
School administration	250,082
Facilities acquisition and construction	105,365
Fiscal services	110,744
Food services	79,152
Central services	159,505
Pupil transportation services	67,734
Operation of plant	67,356
Maintenance of plant	18,375
Capital outlay	298,310
Debt service	
Principal	65,527
Interest	<u>10,528</u>
Total Expenditures	<u>2,017,711</u>
Excess of expenses over revenues	(310,014)
 OTHER FINANCING SOURCES (USES)	
Proceeds from note payable	250,000
Transfer of capital assets from Charter Schools of Excellence Davie 2 Campus	<u>(101,451)</u>
Net other financing sources (uses)	<u>148,549</u>
Net change in fund balance	(161,465)
Fund Balance - Beginning of Year	<u>(103,787)</u>
Fund Balance - End of Year	<u>\$ (265,252)</u>

See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
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**RECONCILIATION of the STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
 to the STATEMENT OF ACTIVITIES**
 For the year ended June 30, 2015

Net change in fund balance - governmental fund \$ (161,465)

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

Governmental funds report capital outlays as expenditures. However in the statement of activities the costs of those capital outlays that benefit the School are posted as assets and are allocated over their estimated useful lives and reported as depreciation. Also the disposition of capital assets (net book value) are deducted from the sale of fixed assets. This amount is the net by which capital outlays (\$298,310) exceeded depreciation (\$54,802). 243,508

The transfer of capital assets from the School's sister campus are reported as other financing uses on the governmental funds but are not included in the statement of activities. 101,451

Government funds report proceeds and repayment of long-term debt as other financing sources and expenditures. However in the statement of net position long-term debt proceeds and repayments are shown as an increase or decrease in the liability. The following is the net change in long-term debt during the year. (184,473)

Some expenses reported 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. 24,267

Change in net position - governmental activities \$ 23,288

See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of The School Board of Broward County, Florida*
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus (the "School" or "Charter School") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Based on guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – Audits of State and Local Governments and provisions of Florida Statutes, the School is presented as a governmental organization for financial statement reporting purposes.

Reporting Entity

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus is a charter school under The Charter Schools of Excellence, Inc., a not-for-profit corporation, organized pursuant to Chapter 617, of the Florida Statutes, the Florida Not for Profit Corporation Act, and Section 228.056, of the Florida Statutes. The governing body of the School is the Board of Directors of The Charter Schools of Excellence, Inc., which governs various other charter schools. The charter provides that the day-to-day financial management and internal accounting procedures of the Charter School are under the purview of the management of the Charter School.

The general operating authority of the Charter School is contained in Section 228.056, of the Florida Statutes. The Charter School operates under a charter of the sponsoring school district, The School Board of Broward County, Florida (the "District"). The current charter is effective until June 30, 2018. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus is considered a component unit of The School Board of Broward County, Florida.

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

Component Unit and Fund Financial Statements

The component unit financial statements (the Statement of Net Position and the Statement of Activities) report information on the activities of the component unit.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE A – CONTINUED

Component Unit and Fund Financial Statements – continued

a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds; in the case of the School, the General Fund represents the only such fund.

Measurement Focus, Basis of Accounting and Basis of Presentation

Component Unit Financial Statements:

The component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. State source revenues, grants and similar items are recognized as revenues as soon as eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated sources are reported as general revenues rather than as program revenues. Likewise, general revenues include State source revenues.

Fund Financial Statements:

Fund financial statements (Governmental) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for un-matured interest on general long-term debt which is recognized when due, and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds, and the proceeds of long-term debt are reported as other financing sources.

- The General Fund is the School's only operating fund. The General Fund accounts for all financial resources, except those required to be accounted for in another fund (currently no other such fund exists).

Investments

The School's general policy is to report money market investments and short-term participating

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE A – CONTINUED

Investments – continued

interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “short-term” refers to investments, which have a remaining term of one year or less at the time of purchase. The term “nonparticipating” means that the investment’s value does not vary with market interest rate changes.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the component unit financial statements. Property, plant, and equipment with initial individual costs that equal or exceed \$500 and estimated useful lives of over one year are recorded as capital assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Property, plant, and equipment are depreciated using the straight-line method over the following estimated lives:

Buildings and improvements	10 – 39 years
Computer equipment	5 years
School equipment	7 – 10 years
Leasehold improvements	5 – 15 years
Furniture and equipment	7 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The School’s items that qualify for reporting in this category are related to participation in the pension plan.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School’s items that qualify for reporting in this category are related to participation in the pension plan. See Note H.

Fund Balance

Governmental accounting standards require fund balance be divided into five classifications, and provide for a hierarchy of spending constraints for spendable resources and requires disclosure of non-spendable and spendable resources. The School has deposits of \$9,587, classified as non-spendable. Spendable resources are shown as Restricted, Committed, Assigned, and Unassigned as considered appropriate in the School’s circumstances. The School has reported its remaining fund balance (deficit) of (\$274,839) as spendable-unassigned on its Balance Sheet –

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NOTE A – CONTINUED

Fund Balance – continued

Governmental Fund. The School applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available.

Revenue Sources

Revenues for operations will be received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School will report the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School 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 School during the designated full-time equivalent student survey periods. In addition, the School receives an annual allocation of charter school capital outlay funds for leasing of school facilities.

The basic amount of funding through the FEFP under Section 1011.62 is the product of (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplied by (3) the base student allocation established by the legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in the Florida Statutes. For the fiscal year ended June 30, 2015, the School reported 217.44 unweighted FTE and 238.46 weighted FTE.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Florida Auditor General pursuant to Section 1010.035, Florida Statutes, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain the following documentation for three years or until completion of an FTE audit:

- Attendance and membership documentation
- Teacher certificates and other certification documentation
- Documentation for instructors teaching out-of-field
- Procedural safeguards for weighted programs
- Evaluation and planning documents for weighted programs

The School may receive federal or state awards for the enhancement of various education 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.

A schedule of revenue sources for the current year is presented in a subsequent note. See Note D.

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NOTE A – CONTINUED

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the FRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value

Compensated Absences

Full time employees of the School, after 90 days of employment, are entitled to be paid for ten or twelve days of sick leave in each calendar year, depending on whether they are ten or twelve month employees, respectively. In the event of termination, each qualifying employee is not entitled to receive payment for accumulated unused sick days.

Each full time twelve-month employee is entitled to annual paid vacation leave, which is accrued when earned. The amount of paid vacation time ranges from five days after one-year employment to fifteen days after ten years employment. In the event of termination, each qualifying employee is entitled to receive payment equal to one hundred percent of the value of the total accumulated unused vacation days.

Adoption of New Accounting Standard

The School implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective July 1, 2014. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. As a result, net position at June 30, 2014, was restated to reflect the cumulative effect of adopting the standards. See Note H.

Certain balances of deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2014, were not available and have not been reported in the financial statements.

Net position, June 30, 2014, as originally stated	\$	115,649
Adjustment to net position		<u>(240,451)</u>
Net position, June 30, 2014, as restated	\$	<u>(124,802)</u>

Long-Term Obligations

In the component unit financial statements, long-term debt and other long-term obligations are reported as noncurrent liabilities.

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NOTE A – CONTINUED

Net Position

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through Board action or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School has no such restrictions. The School's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Due To/From Other Agencies

The Charter Schools of Excellence, Inc. operates eight charter schools and certain administrative and fiscal costs are shared by all of the campuses. In addition, the School shares facilities with The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus. The expenses are either specifically identified with a campus or allocated to the schools based upon the number of students enrolled at each campus. Transactions related to these allocations of costs and related repayments are accounted for in Due To/From Other Agencies.

Budgetary Data

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g., instruction, pupil personnel services and school administration). Budgets may be amended by resolution at any Board meeting prior to the date of the annual report.

Deposit Policy

It is the School's policy to maintain its cash and cash equivalents in major banks. The School has no policy requiring collateral to support its cash deposits although the School's deposits are covered by the Federal Depository Insurance Corporation (FDIC) up to \$250,000. At June 30, 2015, The Charter Schools of Excellence, Inc., as a whole, had no balances in excess of FDIC insured amounts. The School has not experienced any losses in such accounts and does not believe it is exposed to any significant credit or custodial risk.

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NOTE A – CONTINUED

Date of Management Review

In preparing the financial statements, the School has evaluated events and transactions for potential recognition or disclosure through the date of this report. That date is the date the financial statements were available to be issued.

NOTE B – CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

Description	Beginning Balance	Additions	Removals	Ending Balance
Leasehold improvements	\$ 330,239	\$ 389,804	\$ -	\$ 720,043
Furniture, fixtures and equipment	197,737	9,957	-	207,694
Total capital assets	527,976	399,761	-	927,737
Accumulated depreciation:				
Leasehold improvements	(144,788)	(32,110)	-	(176,898)
Furniture, fixtures and equipment	(163,752)	(22,692)	-	(186,444)
Total accumulated depreciation	(308,540)	(54,802)	-	(363,342)
Total capital assets, net	\$ 219,436	\$ 344,959	\$ -	\$ 564,395

Depreciation was charged to School functions as follows:

Component unit activities:	
Instructional	\$49,957
School administration	4,845
Total depreciation expense	<u>\$54,802</u>

NOTE C – NOTE PAYABLE (LONG-TERM DEBT)

The School has an outstanding note payable of \$184,473 to Building Hope, Inc., a charter schools facilities fund. The proceeds were used to cover the costs associated with capital improvements. The note bears interest at six percent and is payable in monthly installments of interest and principal of \$7,605. The loan matures August 2017. The note is secured by a lien on the leasehold improvements owned by The Charter Schools of Excellence, Inc.

Interest expense for the year ended June 30, 2015 was \$10,528. A summary of changes in Long-term debt for the year ended June 30, 2015 is as follows:

Description	Beginning Balance	Issued	(Retired)	Ending Balance
Note payable	\$ -0-	\$ 250,000	\$ 65,527	\$ 184,473

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NOTE C – CONTINUED

The aggregate maturities for the year ending June 30 are as follows:

Year	Total	Principal	Interest
2016	\$ 91,266	\$ 82,440	\$ 8,826
2017	91,266	87,525	3,741
2018	14,615	14,508	107
	<u>\$ 197,147</u>	<u>\$ 184,473</u>	<u>\$ 12,674</u>

NOTE D – FEDERAL, STATE AND LOCAL REVENUE SOURCES

The following is a schedule of the School's Federal, State, and Local revenue for the year ended June 30, 2015.

Sources	Amount
Federal:	
Child Nutrition Cluster	\$ 85,218
Total Federal Revenues	<u>\$ 85,218</u>
State:	
Florida Education Finance Program	\$ 975,528
Categorical Education Programs:	
Class Size Reduction	294,590
Supplementary Academic Instruction	38,733
Instructional Materials	15,670
Safe School	5,028
Transportation	21,841
ESE Guaranteed Allocation	15,481
Science Lab & Library Media	1,194
Discretionary Lottery	815
Digital Classroom Allocation	1,949
Capital Outlay	63,330
Florida Teachers Lead Program	4,256
Total State Revenues	<u>\$ 1,438,415</u>
Local:	
Discretionary Local	\$ 91,808
Enrichment Program	60,067
School Lunch Sales	14,863
Other	17,326
Total Local Revenues	<u>\$ 184,064</u>
Total Federal, State and Local Revenues	<u>\$ 1,707,697</u>

As provided in the charter school contract, the District has charged the School an administrative fee equal to 5 percent of the total funding or \$73,132, which is reflected in fiscal services expense/expenditures in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balance-governmental fund.

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NOTE E – RELATED PARTY TRANSACTIONS

The CEO/Superintendent of the School is an officer of the Florida Consortium of Public Charter Schools. From time to time the School conducts business with the Consortium.

The School has entered into a lease for its administrative offices with a private foundation whose Board of Directors includes the Superintendent and three members of the School's Board of Directors. From time to time funds are loaned between the School and the Foundation. See Note I.

The Charter Schools of Excellence, Inc. operates various other charter schools. All of the schools operated by The Charter Schools of Excellence, Inc. share administrative staff, as well as other operating expenses. In addition, the School shares facilities with The Charter Schools of Excellence Inc. #5026 Davie 2 Campus. At June 30, 2015, the basic financial statements include an amount due to other campuses totaling \$234,470, representing short-term advances for such expenses as mentioned above.

NOTE F – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the School carries commercial insurance. Settlement amounts have not exceeded insurance coverage for the past three (3) years, if any.

NOTE G – MAJOR CONTRACTS

The Board of Directors of The Charter Schools of Excellence, Inc. entered into an employment contract with its Superintendent. The term of this agreement commenced April 16, 2008 and continues until April 15, 2023 or until employment is terminated. Under the terms of this contract, the Superintendent is entitled to severance pay if the contract is terminated without showing reasonable cause in the amount equal to all of the aggregate salary and benefits to which the Superintendent would have otherwise been entitled under the agreement, from the date of termination for the remaining term of the agreement, in a lump sum within thirty days after the date of termination. It is impractical to estimate the amount of compensation relating to a termination, and, accordingly, no liability has been recognized in the accompanying financial statements. It is the School's policy to recognize these costs of termination when and if actually paid.

NOTE H – RETIREMENT PLAN

General Information about the Pension Plan

Plan Description. The School participates in the Florida Retirement System (FRS) Pension Plan and the Retiree Health Insurance Subsidy (HIS) Program. The FRS is a cost-sharing, multiple-employer, 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 HIS is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with section 112.363, Florida Statutes.

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NOTE H – CONTINUED

Benefits Provided. The FRS provides a lifetime pension benefit with joint and survivor payment options. FRS membership is compulsory for employees filling regularly established positions in the School. The HIS benefit is a monthly payment to assist retirees of the state-administered retirement system in paying their health insurance costs.

A DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust and accrue interest. The School had no DROP participants during fiscal 2015.

Contributions. The contribution rates for members are established, and may be amended, by the State of Florida. During the 2015 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.0%	7.37%
Florida Retirement System, Reemployed Retiree	(B)	(B)

(A) Employer rates include 1.26% for the post-employment health insurance supplement and 0.04% for administrative costs of the Public Employee Optional Retirement Program.

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

Employer contributions are recognized by the FRS in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the FRS. Employer contributions recognized by the FRS from the School were \$36,475 for the FRS and \$8,740 for the HIS for the year ended June 30, 2015.

At June 30, 2015, the School had \$8,461 payable to the Plan, included in accrued payroll, payroll taxes and withholdings. This payable results from statutorily required contributions on June payroll payable in July 2015.

Defined Contribution Plan. Effective July 1, 2002, the FRS Investment Plan was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer contributions that are based on salary and membership class (i.e., regular class, reemployed retiree, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. The School had no Investment Plan participants during fiscal 2015.

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

At June 30, 2015, the School reported a liability of \$207,023 for its proportionate share of net pension liability, consisting of \$57,561 for the FRS and \$149,462 for the HIS. The net pension

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NOTE H – CONTINUED

liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was calculated using accrued retirement contributions for employers that were members of the FRS and HIS during fiscal years 2013 and 2014. At June 30, 2013 and 2014, the School's proportions for FRS were 0.000863994 percent and 0.000943401 percent, respectively; the School's proportions for HIS were 0.001353724 percent and 0.001598480 percent, respectively.

For the year ended June 30, 2015, the School recognized a net pension expense after GASB 68 adjustments of \$36,939. Employer contributions in the allocated schedules for the defined benefit plans represent contributions specific to each defined benefit plan and do not equal total blended contributions remitted by the employer. The year-to-year pension expense number is likely to be volatile. At June 30, 2015, the School 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
Florida Retirement System		
Difference between expected and actual experience	\$ -	\$ 3,562
Changes of assumptions or other inputs	9,969	-
Net difference between projected and actual earnings on pension plan investments	-	96,022
Changes in proportion and differences between contributions recognized and proportionate share of contributions	11,499	-
Contributions subsequent to the measurement date	36,475	-
Total Florida Retirement System	57,943	99,584
Health Insurance Subsidy Program		
Difference between expected and actual experience	-	-
Changes of assumptions or other inputs	5,318	-
Net difference between projected and actual earnings on pension plan investments	72	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	18,350	-
Contributions subsequent to the measurement date	8,740	-
Total Health Insurance Subsidy Program	32,480	-
Total	\$ 90,423	\$ 99,584

Contributions of \$45,215, consisting of \$36,475 for the FRS and \$8,740 for the HIS, reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of

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NOTE H – CONTINUED

resources related to pensions will be recognized in pension expense for the years ended June 30, as follows:

		FRS		HIS
2016	\$	(20,627)	\$	3,836
2017		(20,627)		3,836
2018		(20,627)		3,836
2019		(20,627)		3,836
2020		3,379		3,818
Thereafter		1,013		4,578
Totals	\$	(78,116)	\$	23,740

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

The following changes in actuarial assumptions occurred in 2014:

- FRS: As of June 30, 2014, the inflation rate assumption was decreased from 3.00% to 2.60%, the real payroll growth assumption was decreased from 1.00% to 0.65%, and the overall payroll growth rate assumption was decreased from 4.00% to 3.25%. The long-term rate of return decreased from 7.75% to 7.65%.
- HIS: The municipal rate used to determine total pension liability decreased from 4.65% to 4.29%

The actuarial assumptions for the FRS Pension Plan used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for this program.

The FRS's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent analysis of the long-term expected rate of return, presented to the FRS Board in September 2014, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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NOTE H – CONTINUED

Asset Class	Target Allocation	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.11%	3.10%	1.65%
Intermediate-Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Broad US Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Equities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds/Absolute Return	7.00%	5.81%	5.35%	10.00%
Real Estate (Property)	12.00%	7.11%	6.35%	13.00%
Totals	<u>100.0%</u>			
Assumed Inflation – Mean		2.60%		2.00%

Discount Rate. The discount rate used to measure the total FRS pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law. Based on those assumptions, the FRS's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The FRS discount rate decreased from 7.75 percent to 7.65 percent.

The discount rate used to measure the total HIS pension liability was 4.29 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate equal to the municipal bond rate selected by the plan sponsor. The HIS discount rate decreased from 4.63 percent to 4.29 percent.

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate. 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 of the participating employers if the discount rate was 1.00 percent higher or 1.00 percent lower than the current discount rate at June 30, 2014.

FRS Net Pension Liability:

	1 % Decrease (6.65%)	Current Discount Rate (7.65%)	1 % Increase (8.65%)
School's proportionate share of the net pension liability	<u>\$ 246,197</u>	<u>\$ 57,561</u>	<u>\$ (99,348)</u>

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NOTE H – CONTINUED

HIS Net Pension Liability:

	1 % Decrease (3.29%)	Current Discount Rate (4.29%)	1 % Increase (5.29%)
School's proportionate share of the net pension liability	\$ 170,001	\$ 149,462	\$ 132,318

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report (CAFR) of the Florida Retirement System Pension Plan and Other State Administered Systems for the fiscal year ended June 30, 2014 and the Schedules of Employer Allocations and Pension Amounts by Employer for the Florida Retirement Systems Pension Plan and the Retiree Health Insurance Subsidy Program, audited by the Florida Auditor General. The system's CAFR and actuarial reports may be obtained from the State of Florida, Division of Retirement, in Tallahassee, Florida or online at http://www.dms.myflorida.com/workforce_operations/retirement/publications.

NOTE I – COMMITMENTS AND CONTINGENCIES

Leases

The School leases facilities under an operating lease. In addition, the School leases administrative offices from a private foundation controlled by members of the Board of Directors. See Note E. Rent expense for the year ended June 30, 2015 was \$105,365. Of this amount, \$13,319 was paid to the related parties. The Charter Schools of Excellence, Inc. leases equipment under an operating lease, the cost of which is allocated to individual campuses. The School's portion of the rent expense for the year ended June 30, 2015 is \$10,285.

Future minimum rental payments for the years ended June 30, are as follows:

2016	\$ 116,424
2017	\$ 116,424
2018	\$ 93,990
2019	\$ 90,951
2020	\$ 90,951
Thereafter	\$ 272,854

Legal Matters

In the normal course of conducting its operations, the School 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.

Funding and Credit Concentrations

The School receives substantially all of its support and revenue from the federal, state and local funding sources, passed through the District, in the form of performance and budget based contracts. Continuing operation of the School is greatly dependent upon the continued support of these governmental agencies.

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REQUIRED SUPPLEMENTAL INFORMATION

BUDGET TO ACTUAL COMPARISON SCHEDULE - GENERAL FUND

For the year ended June 30, 2015

	Budgeted Amounts		Actual	Variance with
REVENUES:	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
State sources				
Categorical programs and other	\$ 1,774,641	\$ 1,774,641	\$ 1,438,415	\$ (336,226)
Total state sources	1,774,641	1,774,641	1,438,415	(336,226)
Local sources				
Fundraising and contributions, net	7,936	7,936	11,952	4,016
Grants and other	156,434	156,434	257,330	100,896
Total local sources	164,370	164,370	269,282	104,912
Total Revenues	1,939,011	1,939,011	1,707,697	(231,314)
EXPENDITURES:				
Current				
Instructional	850,382	850,382	665,704	184,678
Pupil personnel services	6,900	6,900	6,945	(45)
Instruction and curriculum development	12,000	12,000	1,049	10,951
Instructional staff training services	7,200	7,200	-	7,200
General administration	80,253	80,253	111,335	(31,082)
School administration	258,675	258,675	250,082	8,593
Facilities acquisition and construction	104,400	104,400	105,365	(965)
Fiscal services	112,217	112,217	110,744	1,473
Food services	94,864	94,864	79,152	15,712
Central services	177,600	177,600	159,505	18,095
Pupil transportation services	66,000	66,000	67,734	(1,734)
Operation of plant	129,600	129,600	67,356	62,244
Maintenance of plant	26,400	26,400	18,375	8,025
Capital outlay	-	-	298,310	(298,310)
Debt Service				
Principal	-	-	65,527	(65,527)
Interest	-	-	10,528	(10,528)
Total Expenditures	1,926,491	1,926,491	2,017,711	(91,220)
Excess of expenses over revenues	12,520	12,520	(310,014)	(322,534)
OTHER FINANCING SOURCES (USES)				
Proceeds from note payable	-	-	250,000	250,000
Transfer of capital assets from CSE Davie 2	-	-	(101,451)	(101,451)
Net other financing sources (uses)	-	-	148,549	148,549
Net change in fund balance	12,520	12,520	(161,465)	(173,985)
Fund Balance - Beginning of Year	(103,787)	(103,787)	(103,787)	-
Fund Balance - End of Year	\$ (91,267)	\$ (91,267)	\$ (265,252)	\$ (173,985)

See Independent Auditor's Report.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of The School Board of Broward County, Florida*

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE of the SCHOOL'S PROPORTIONATE SHARE of the NET PENSION LIABILITY
FLORIDA RETIREMENT SYSTEM
Last 10 Fiscal Years***

	2014	2013
School's proportion of the net pension liability (asset)	0.000943401%	0.000863994%
School's proportionate share of the net pension liability (asset)	\$ 57,561	\$ 148,732
School's covered-employee payroll	\$ 474,930	\$ 393,278
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.12%	37.82%
Plan fiduciary net position as a percentage of the total pension liability	96.09%	88.54%

* The amounts presented for each fiscal year were determined as of 6/30.

* Complete 10-year information to be presented in future years as it becomes available.

See Independent Auditor's Report.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
 a Component Unit of The School Board of Broward County, Florida*

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL CONTRIBUTIONS

FLORIDA RETIREMENT SYSTEM

Last 10 Fiscal Years*

	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 20,664	\$ 11,627
Contributions in relation to the contractually required contribution	<u>(20,664)</u>	<u>(11,627)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 474,930	\$ 393,278
Contributions as a percentage of covered-employee payroll	4.35%	2.96%

* The amounts presented for each fiscal year were determined as of 6/30.

* Complete 10-year information to be presented in future years as it becomes available.

See Independent Auditor's Report.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of The School Board of Broward County, Florida*

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE of the SCHOOL'S PROPORTIONATE SHARE of the NET PENSION LIABILITY
HEALTH INSURANCE SUBSIDY PROGRAM
Last 10 Fiscal Years***

	<u>2014</u>	<u>2013</u>
School's proportion of the net pension liability (asset)	0.001598480%	0.001353724%
School's proportionate share of the net pension liability (asset)	\$ 149,462	\$ 117,859
School's covered-employee payroll	\$ 474,930	\$ 393,278
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.47%	29.97%
Plan fiduciary net position as a percentage of the total pension liability	0.99%	1.78%

* The amounts presented for each fiscal year were determined as of 6/30.

* Complete 10-year information to be presented in future years as it becomes available.

The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of The School Board of Broward County, Florida*

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF SCHOOL CONTRIBUTIONS
HEALTH INSURANCE SUBSIDY PROGRAM**

Last 10 Fiscal Years*

	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 5,476	\$ 4,434
Contributions in relation to the contractually required contribution	<u>(5,476)</u>	<u>(4,434)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 474,930	\$ 393,278
Contributions as a percentage of covered-employee payroll	1.15%	1.13%

* The amounts presented for each fiscal year were determined as of 6/30.

* Complete 10-year information to be presented in future years as it becomes available.

See Independent Auditor's Report.

Charles A. Krblich, P.A.

Certified Public Accountants

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 Directors
The Charter Schools of Excellence, Inc.
Fort Lauderdale, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus (the "School"), a charter school under The Charter Schools of Excellence, Inc. and a component unit of The School Board of Broward County, Florida, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 Charter Schools of Excellence, Inc. #5271 Davie 1 Campus's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Charles A. Kullback PACCA". The signature is written in a cursive style and is positioned above a horizontal line.

Fort Lauderdale, Florida
October 26, 2015

Charles A. Krblich, P. A.

Certified Public Accountants

MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

To the Board of Directors
The Charter Schools of Excellence, Inc.
Fort Lauderdale, Florida

Report on the Financial Statements

We have audited the financial statements of The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus (the "School"), a charter school under The Charter Schools of Excellence, Inc. and a component unit of The School Board of Broward County, Florida, Florida, as of and for the fiscal year ended June 30, 2015, and have issued our report thereon dated October 26, 2015.

Auditor's Responsibility

We conducted our audit 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 Chapter 10.850, Rules of the Auditor General.

Other Report

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated October 26, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. In the prior year there was finding of deteriorating financial condition due to a spendable - unassigned fund balance deficit of (\$111,874) and an unrestricted net position deficit of (\$103,787). The School still meets the definition of deteriorating financial condition, see Finding 2015-01 below.

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus (f/k/a Charter School of Excellence at Davie).

Financial Condition

Section 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus

Financial Condition – Continued

has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus. It is management's responsibility to monitor The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. At June 30, 2015 the School met definitions of deteriorating financial conditions as follows:

Finding 2015-01 – Deteriorating Financial Condition

Criteria: As defined in Section 218.39(5)(b) indicators of a deteriorating financial condition are a fund balance deficit in total or for that portion of a fund balance not classified as restricted, committed, or nonspendable.

Condition: At June 30, 2015 the School had a spendable - unassigned fund balance deficit of (\$274,839).

Cause: The School began work on a capital improvement project late in the prior fiscal year which continued into the current year and capital outlay costs of \$399,761 were reported as expenditures on the fund basis financial statements. These improvements were financed with a note payable.

Potential effect: Potentially the School could lack the resources to meet its obligations.

Recommendation: The School should review its budgeting process, including a capital budget, and monitor its budget versus expenditures to ensure spending is within the budget.

Views of Responsible Officials: School officials believe this situation arose from the expenditure of resources for capital assets which were financed with debt. The capital improvement project is completed and there are no plans for additional projects in the near future. Management believes it has the resources to repay the debt and meet continuing obligations.

Transparency

Section 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, applicable management, and The School Board of Broward County, Florida and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Charles A. Kullback CPA". The signature is written in a cursive style and is positioned above a horizontal line.

Fort Lauderdale, Florida
October 26, 2015



**THE CHARTER SCHOOLS
OF EXCELLENCE**

October 26, 2015
"A Core Knowledge and Character First! School"

OFFICERS

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Honorary Chair Posthumously
Sam Iannaccone, Sr.
President
Dr. Dorothy J. Orr
Vice President
Michael Smith
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Secretary

DIRECTORS

Jack Latona
Renee Smith
Bill Spiker

Robert Haag
Superintendent

Tracy Nessl
Deputy Superintendent

Board of Directors
The Charter Schools of Excellence, Inc.
1225 SE 2nd Avenue
Fort Lauderdale, FL 33316

RE: The Charter Schools of Excellence – Davie 1 Campus (5271)

The audit of the Charter Schools of Excellence – Davie 1 Campus financial statements for the year ended June 30, 2015 has been completed. This letter serves as CSE’s response, in conjunction with the audited financial statements from Charles A. Krblich, PA Certified Public Accountants.

The purpose of this letter is to respond to the comment listed in the management letter.

Deteriorating Financial Condition

Although Davie 1 – 5271 campus has a deficit fund balance as of June 30, 2015, the Charter School, through its related entities has proven resources to supplement the deficit. Senior Management and the Board of Directors made the decision to build 3 permanent classrooms and a boys and girls restroom in a separate building so that the campus would have enough rooms to implement our programs and fill it to the approved capacity. This investment was over \$500k.

The 2014/2015 enrollment was 211 students and as of last week, the enrollment has increased by 64 students to 275 students. CSE as a whole has a credit line with Bank of America for \$250,000 that had a zero balance as of June 30, 2015. Across all campuses we had \$118,647.33 in total cash as of June 30, 2015.

Should you have any questions, please contact us.

Best Regards,

Robert Haag
Superintendent

Jeremy Westbrook
Director of Support Services



ACCREDITED SCHOOLS
MAIN CAMPUS - FORT LAUDERDALE
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