

LAKE EOLA CHARTER SCHOOL, INC.
FINANCIAL STATEMENTS
(Audited)

Year Ended June 30, 2016

LAKE EOLA CHARTER SCHOOL, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Lake Eola Charter School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Lake Eola Charter School, Inc. (the School), a component unit of the District School Board of Orange County, Florida, as of and for the year ended June 30, 2016, 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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lake Eola Charter School, Inc. as of June 30, 2016 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 and budgetary comparison information on pages 3 to 6 and page 19, respectively, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016 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 School's internal control over financial reporting and compliance.

Holland & Rieilly

Orlando, Florida
September 28, 2016

LAKE EOLA CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the year ended June 30, 2016

This discussion of Lake Eola Charter School, Inc.'s (the School) financial performance provides an overview of the School's activities for the year ended June 30, 2016. It should be read in conjunction with the financial statements.

Reporting Entity

In July 2004, Lake Eola Charter School Foundation, Inc. (the Foundation) was created to assist the School in fundraising efforts. The financial statements for the year ended June 30, 2016 include the activities of the School and the Foundation.

Overview of the Financial Statements

The organization-wide and fund financial statements are combined for this report, as all activities of the School are governmental activities and the School is deemed to be a single-program government. The report consists of the organization-wide and fund statements, notes to the financial statements, and other required supplementary information. The statements are designed to provide readers with an overview of the School's finances in a manner similar to a private-sector business.

The Statement of Net Position and Governmental Funds Balance Sheets presents the School's assets and liabilities as of June 30, 2016. The difference between assets and liabilities is presented as net position. Increases or decreases in the amount of net position serves as an indicator of whether the School's financial condition is improving or deteriorating.

The Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances presents information related to how the School's net position changed during the most recent fiscal year. The School uses the economic resources measurement focus and the accrual basis of accounting, whereby changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Governmental activities are primarily supported by state and local sources, and charges for services.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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. Reconciliation of the organization-wide and fund financial statements is provided in Note 2 on pages 13-14.

Notable Items

- The School experienced an increase in net position of \$90,148. In the prior year, net position increased \$88,890.
- Capital asset acquisitions, consisting mostly of building improvements, equipment and computers, were \$15,560 for the year ended June 30, 2016. See Note 4 to financial statements.
- Current enrollment is approximately 219 students, kindergarten – eighth grade.

The Government-wide Financial Statements are presented in the right column of pages 7 and 8. Net position may serve over time as a useful indicator of the School's financial position. At the close of the fiscal year, net position was \$913,428. Of that amount, \$353,897 or 39% of total net position, represents the School's net investment in capital assets, and is thus not available for future spending, with a balance of \$559,531 available for School operations. Of that amount, \$101,869 is restricted for capital expenditures from Public Education Capital Outlay funding. GASB 34 does not allow net position to be represented as "restricted" unless there are external legal restrictions on how they may be used.

LAKE EOLA CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the year ended June 30, 2016

Financial Analysis

Government-wide Financial Statements

Net Position	2016	2015
Assets:		
Cash and cash equivalents	\$ 288,133	309,593
Investments	203,799	204,495
Capital outlay accounts receivable	101,869	15,009
Prepaid items	11,035	9,450
Capital assets	<u>1,948,696</u>	<u>2,029,765</u>
	<u>\$ 2,553,532</u>	<u>\$ 2,568,312</u>
Current liabilities	45,305	54,655
Non-current liabilities	<u>1,594,799</u>	<u>1,690,377</u>
	<u>1,640,104</u>	<u>1,745,032</u>
Net Position		
Net investment in capital assets	353,897	339,388
Restricted	101,869	15,009
Unrestricted	<u>457,662</u>	<u>468,883</u>
	<u>913,428</u>	<u>823,280</u>
Total liabilities and net position	<u>\$ 2,553,532</u>	<u>\$ 2,568,312</u>
Changes in Net Position		
Program revenues - charges for services	19,089	20,693
General Revenues:		
Federal revenues	3,290	1,668
State revenues	1,542,523	1,496,120
Local revenues	123,057	151,953
Investment income	<u>(638)</u>	<u>(3,079)</u>
Total revenues	<u>1,687,321</u>	<u>1,667,355</u>
Expenses:		
Instruction - basic	960,312	944,520
Instruction - exceptional	65,166	62,658
Pupil personnel services	29,530	28,954
Instruction and curriculum development	29,096	28,485
School board	28,114	27,702
School administration	160,634	150,513
Facilities acquisition and construction	3,000	16,008
Fiscal services	52,207	50,605
Operation of plant	176,609	172,646
Interest	<u>92,505</u>	<u>96,374</u>
Total expenses	<u>1,597,173</u>	<u>1,578,465</u>
Increase in net position	90,148	88,890
Net position beginning	<u>823,280</u>	<u>734,390</u>
Net position, ending	<u>\$ 913,428</u>	<u>\$ 823,280</u>

LAKE EOLA CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the year ended June 30, 2016

Fund Financial Statements

Financial statements are presented by fund in the first four columns of pages 7 and 8. Governmental funds provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements.

The General Fund is the main operating fund of the School. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$404,403. The total fund balance of the School was \$563,271, consisting of total assets of \$629,959 less liabilities of \$66,688. Cash, cash equivalents and investments comprised 78% of the total fund assets of the School.

Overall, the governmental funds experienced an excess of revenues over expenditures of \$75,442. State revenues for all governmental funds increased 3.1% or \$46,403 in the current year due primarily to increased FEFP funding per student. Investment earnings showed an overall loss of (\$638), compared to an overall loss of (\$3,079) in the prior year.

General Fund revenues exceeded expenditures by \$20,015. In the prior year, General Fund revenues exceeded expenditures by \$58,292.

Capital Outlay accounts receivable represents reimbursable amounts due from state capital outlay funds for capital expenditures. No draw-downs were made during the year. Building Fund expenditures for the current year consist of capital improvements of \$3,000 and repairs of \$3,257 to the School's facility by the Foundation.

Capital Assets and Long-Term Debt

Additions to capital assets include \$3,000 in improvements to the School's facility and \$12,560 in computers and other equipment. See Note 4 for additional information on capital assets.

The mortgage payable on the School's facility was reduced \$95,578. Interest paid was \$92,702. The balance of the mortgage payable was \$1,594,799 at June 30, 2016. See Note 5 for additional information on long-term debt.

General Fund and Capital Outlay Fund – Budget and Actual

A comparison of budgeted and actual amounts is shown on page 19 of the financial statements. The original budget for the year ended June 30, 2016 was revised in June, 2016. Major changes reflected in the revised budget were an increase in state source revenue, as well as an increase in instruction - basic expenditures.

Differences between budgeted and actual amounts were primarily the result of the year-end allocation of actual revenue and expenditures between departments not done for budget purposes.

LAKE EOLA CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the year ended June 30, 2016

Economic Factors and Next Year's Budget

For budgeting purposes, Florida Education Finance Program, other state funding, and fundraising revenues are expected to remain consistent with last year's amounts. Capital Outlay revenue is expected to decrease. Salaries and related expenses are expected to increase by 2%. Expenditures for capital asset acquisitions are expected to decrease. The June 30, 2017 budget for the General Fund indicates revenues in excess of expenditures of approximately \$33,000.

Requests for Information

This financial report is designed to provide a general overview 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 financial information should be addressed to the School's Director, Lake Eola Charter School, Inc., 135 Magnolia Avenue, Orlando, FL 32801.

LAKE EOLA CHARTER SCHOOL, INC.
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEETS
June 30, 2016

	Governmental Funds					Adjust- ments	Statement of Net Position
	General Fund	Foundation Fund	Capital Outlay	Building Fund	Total		
Assets:							
Cash and cash equivalents	\$ 270,569	\$ 6,084	\$	\$ 11,480	\$ 288,133	\$	\$ 288,133
Investments	150,276	53,523			203,799		203,799
Accounts receivable, FEFP capital outlay funds			101,869		101,869		101,869
Due from Foundation Fund	25,123				25,123	(25,123)	-
Prepaid items	11,035				11,035		11,035
Capital assets not being depreciated					-	422,314	422,314
Capital assets, net of accumulated depreciation					-	1,526,382	1,526,382
Total assets	\$ 457,003	\$ 59,607	\$ 101,869	\$ 11,480	\$ 629,959	\$ 1,923,573	\$ 2,553,532
Liabilities:							
Accounts payable	6,238				6,238		6,238
Accrued liabilities	35,327				35,327		35,327
Due to General Fund		25,123			25,123	(25,123)	-
Accrued interest payable					-	3,740	3,740
Long-term liabilities:							
Due within one year					-	74,626	74,626
Due after one year					-	1,520,173	1,520,173
Total liabilities	41,565	25,123	-	-	66,688	1,573,416	1,640,104
Fund Balances/Net Position:							
Fund balances:							
Nonspendable	11,035				11,035	(11,035)	-
Restricted			101,869		101,869	(101,869)	-
Assigned				11,480	11,480	(11,480)	-
Unassigned	404,403	34,484			438,887	(438,887)	-
Total fund balances	415,438	34,484	101,869	11,480	563,271	(563,271)	-
Total liabilities and fund balances	\$ 457,003	\$ 59,607	\$ 101,869	\$ 11,480	\$ 629,959		
Net position:							
Net investment in capital assets						353,897	353,897
Restricted						101,869	101,869
Unrestricted						457,662	457,662
Total net position						\$ 913,428	\$ 913,428

See accompanying notes.

LAKE EOLA CHARTER SCHOOL, INC.
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
for the year ended June 30, 2016

	<u>Governmental Funds</u>					Adjust- ments	Statement of Activities
	General Fund	Foundation Fund	Capital Outlay	Building Fund	Total		
Expenditures/expenses:							
Instruction - basic	\$ 951,204	\$	\$	\$	\$ 951,204	\$ 9,108	\$ 960,312
Instruction - exceptional	65,166				65,166		65,166
Pupil personnel services	29,530				29,530		29,530
Instruction and curriculum development	29,096				29,096		29,096
School board	28,114				28,114		28,114
School administration	160,484	150			160,634	-	160,634
Facilities, acquisition and construction	-			3,000	3,000	-	3,000
Fiscal services	52,207				52,207		52,207
Operation of plant	264,671			3,257	267,928	(91,319)	176,609
Debt service:							
Principal		95,578			95,578	(95,578)	-
Interest		92,702			92,702	(197)	92,505
Total expenditures/expenses	<u>1,580,472</u>	<u>188,430</u>	<u>-</u>	<u>6,257</u>	<u>1,775,159</u>	<u>(177,986)</u>	<u>1,597,173</u>
Program revenues:							
Charges for services	<u>19,089</u>				<u>19,089</u>		<u>19,089</u>
Net program expense							<u>1,578,084</u>
General revenues:							
Federal sources	3,290				3,290		3,290
State sources	1,455,663		86,860		1,542,523		1,542,523
Local sources	122,272	164,065			286,337	(163,280)	123,057
Investment earnings	173	(811)			(638)		(638)
Total general revenues	<u>1,581,398</u>	<u>163,254</u>	<u>86,860</u>	<u>-</u>	<u>1,831,512</u>	<u>(163,280)</u>	<u>1,668,232</u>
Excess (deficiency) of revenues over (under) expenditures	20,015	(25,176)	86,860	(6,257)	75,442	(75,442)	
Change in net position						90,148	90,148
Fund balance/net position							
Beginning of year	<u>395,423</u>	<u>59,660</u>	<u>15,009</u>	<u>17,737</u>	<u>487,829</u>	<u>335,451</u>	<u>823,280</u>
End of year	<u>\$ 415,438</u>	<u>\$ 34,484</u>	<u>\$ 101,869</u>	<u>\$ 11,480</u>	<u>\$ 563,271</u>	<u>\$ 350,157</u>	<u>\$ 913,428</u>

See accompanying notes.

LAKE EOLA CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Reporting Entity - Lake Eola Charter School, Inc. (the School) is part of the Florida system of public education under the general direction of the Florida Department of Education (Department). The School was created pursuant to Chapter 228, Florida Statutes, following approval of its charter by the District School Board of Orange County, Florida (School Board). Current enrollment is approximately 219 students in grades K through 8. The School Board approved the charter effective for the 1998/1999 school years. The original charter expired June 30, 2001 and the School Board approved a new charter that covered the period July 1, 2001 to June 30, 2016. In December 2010, the School Board approved a new charter that will cover the fifteen year period July 1, 2011 to June 30, 2026. The charter is subject to annual review and may be terminated during the term of the charter. In the event the School is dissolved or terminated, any public unencumbered funds and all school property purchased with public funds automatically revert to the School Board.

The Florida Department of Education has concluded that Florida charter schools are component units of the sponsoring school board. To facilitate accounting and reporting to school boards, charter schools are encouraged to use the governmental reporting model and follow the fund and account structure provided in the "Financial and Program Cost Accounting and Reporting for Florida Schools - The Red Book," issued by the Florida Department of Education. The School is required by contract with the School Board to use the governmental reporting model and The Red Book.

As required by U.S. generally accepted accounting principles, the financial reporting entity consists of (1) the primary government, (2) organizations for which the School is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The School is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the School. Based on these criteria, the School's management examined all organizations that were legally separate in order to determine which organizations, if any, should be included in the School's financial statements. Management determined that Lake Eola Charter School Foundation, Inc. (the Foundation) is the only organization that should be included in the School's financial statements as a component unit.

Based upon a review of these criteria, the following addresses the blended component unit included in the School's reporting entity.

Lake Eola Charter School Foundation, Inc. – The Foundation was created on July 30, 2004 as a not-for-profit corporation under Chapter 617 of the Florida Statutes. Its purpose is to assist the School in fundraising efforts. The Foundation owns the School's facility and the School guarantees the Foundation's indebtedness on the facility. The School and the Foundation have a common member on the boards of directors. The Foundation is treated as a blended component unit because of the closeness of the relationship with the School.

LAKE EOLA CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies - continued:

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the activities of the School. The effect of interfund activities has been removed from these statements. The School has only governmental activities and does not engage in any business-type activities. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges for services for goods and services provided to participants on a voluntary basis. General revenues represent amounts received from federal, state and local sources. Fund financial statements are presented for the School's General, Foundation, Capital Outlay, and Building Funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The government-wide 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements 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 enough 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 period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and long-term debt agreements are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

The School reports the following major governmental funds:

General Fund – accounts for all financial resources not required to be accounted for in another fund and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.

Foundation Fund – accounts for the financial resources of Lake Eola Charter School Foundation, Inc. and its fundraising activities for the School.

Capital Outlay Fund – to account for financial resources (Public Education Capital Outlay) to be used for acquisition or funding of major capital facilities or equipment.

The School reports the following non-major governmental fund:

Building Fund – to account for the financial resources (Education Facilities Revenue Bonds) to be used for the acquisition and funding of the School's facility and related improvements.

LAKE EOLA CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies - continued:

Budgets and Budgetary Accounting – Budgets are prepared and original budgets are adopted annually for certain governmental funds in accordance with procedures and time intervals prescribed by the Board of Directors (Board) of the School. During the fiscal year ended June 30, 2016, the Board adopted an annual budget for the General Fund. A budget is not adopted for the Foundation Fund, Capital Outlay Fund or the Building Fund. The School is not required to submit its budget to any regulatory agencies.

Appropriations are controlled at the object level (e.g. salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended at any Board meeting prior to the due date of the annual financial report. Budgets are prepared using the same modified accrual basis as is used to account for actual transactions.

Internal Receivables and Payables – Activity between funds that is representative of lending/borrowing arrangements outstanding at fiscal year end are referred to as internal receivables and internal payables.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand accounts, money market accounts and certificates of deposits. Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance. Money market accounts and certificates of deposit are stated at fair value.

Investments – Investments within the General Fund and Foundation Fund consist of common stocks and mutual funds and are stated at fair value as determined in an active market.

Capital Assets – Capital assets consist of land, building and building improvements, furniture, fixtures, and equipment. Capital assets purchased in the governmental funds are recorded as expenditures at time of purchase. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets are defined as assets with a cost of \$500 or more. Donated capital assets are recorded at fair value at the date of donation. Depreciation has been provided on capital assets as a direct charge using the straight-line method over the estimated useful lives of the various classes of depreciable assets, as follows:

	<u>Years</u>
Building	30
Building improvements	5-15
Furniture, fixtures and equipment	3-5

Long-Term Obligations – In the government-wide financial statements, long-term debt is reported as a liability in the statement of net position.

LAKE EOLA CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies - continued:

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results may differ from those estimates.

State Revenue Sources - Revenue from State sources for current operations are primarily from the Florida Education Finance Program (FEFP) administered by the Florida Department of Education under the provisions of Section 1011.60, Florida Statutes. In accordance with this law, the Board determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTEs and related data and calculates the allocation of funds to the School. The School is permitted to amend its original reporting for a period of one year following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the School's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain categorical educational programs. Florida Department of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund.

The State allocates gross receipt taxes, generally known as Public Education Capital Outlay money, to local school boards on an annual basis. The boards are authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Florida Department of Education. The School Board remits funds to the School upon submission of expenditure requests. Revenue is recognized when the School Board allocates and remits funds to the School's account.

Fund Balances – In accordance with GASB Statement 54, the School is required to report fund balance amounts in five classifications – nonexpendable and the spendable categories of restricted, committed, assigned, and unassigned, as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. The School had \$11,035 in nonspendable fund balance amounts at June 30, 2016 relating to prepaid items.

Restricted – amounts that are constrained for specific purposes which are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. The School had \$101,869 in restricted fund balance amounts at June 30, 2016 pertaining to the Public Education Capital Outlay.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the School's highest level of decision-making authority. The School's Board of Directors addresses these commitments through formal board action prior to the School's year end. The School had no committed fund balance amounts at June 30, 2016.

**LAKE EOLA CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies - continued:

Assigned – amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance amounts may be assigned by the School's Board of Directors and/or the Executive Committee if so delegated by the School's Board of Directors. The School had \$11,480 in assigned fund balance amounts at June 30, 2016 pertaining to funds to be used for acquisition of major capital facilities or equipment, or major repairs.

Unassigned – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balances may also include negative fund balances for any other governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The School uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. Additionally, the School would first use committed, then assigned, and lastly unassigned amounts.

The School does not have a formal minimum fund balance policy, nor has it established any stabilization arrangements within fund balances.

Income Taxes - The School and the Foundation are Florida not-for-profit organizations that are exempt from state and federal income tax under Internal Revenue Service Code Section 501(c)(3). Accordingly, no provision for federal or state income taxes has been recorded in these financial statements.

2. Reconciliation of Government-Wide and Fund Financial Statements:

Adjustments were made to include capital assets (net of accumulated depreciation), accrued interest payable, and bonds payable on the statement of net position. This resulted in a net difference of \$350,157 between ending governmental fund balances and total net position.

Governmental fund balances	\$ 563,271
Capital assets, net	1,948,696
Accrued interest payable	(3,740)
Bonds payable	(1,594,799)
Total net position	<u>\$ 913,428</u>

**LAKE EOLA CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS**

2. Reconciliation of Government-Wide and Fund Financial Statements - continued:

Adjustments were made to include depreciation and interest expenses and eliminate capital outlay and bond principal payment expenditures. This resulted in a net difference of \$14,706 between "excess of revenues over expenditures" and "change in net position".

Excess of revenues over expenditures	\$ 75,442
Add: Capital outlay expenditures	15,560
Principal payments	95,578
Interest expense	197
Less: Depreciation expense	<u>(96,629)</u>
Change in net position	<u>\$ 90,148</u>

3. Cash, Cash Equivalents and Investments:

At June 30, 2016, the School and Foundation maintained the following cash, cash equivalents and investments:

	Carrying amount		
	<u>School</u>	<u>Foundation</u>	<u>Total</u>
Cash and cash equivalents:			
Cash	\$ 267,867	17,564	285,431
Money market	2,702	-	2,702
	<u>270,569</u>	<u>17,564</u>	<u>288,133</u>
Investments:			
Common stocks	-	816	816
Mutual funds	150,276	52,707	202,983
	<u>\$ 150,276</u>	<u>53,523</u>	<u>203,799</u>

The School and Foundation's activities related to investments for the year ended June 30, 2016, are as follows:

	<u>School</u>	<u>Foundation</u>	<u>Total</u>
Interest income	\$ 4,853	2,597	7,450
Unrealized loss	<u>(4,680)</u>	<u>(3,408)</u>	<u>(8,088)</u>
	<u>\$ 173</u>	<u>(811)</u>	<u>(638)</u>

At June 30, 2016, the School's investments have an unrealized loss of \$8,014 and the Foundation's investments have an unrealized loss of \$4,621.

Individual investments in excess of 5% of total investments were:

	<u>Cost</u>	<u>Fair Value</u>
Eaton Vance Floating Note C Fund (School)	\$158,290	\$150,276
Franklin Income Fund (Foundation)	56,638	52,017

Neither the School nor the Foundation have adopted a formal investment policy. Thus, there are no policies relative to interest rate risk or credit risk.

**LAKE EOLA CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS**

4. Capital Assets:

The following is a summary of changes in capital assets during the fiscal year:

	Balance July 1, 2015	<u>Increases</u>	<u>Decreases</u>	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 422,314	-	-	422,314
Capital assets being depreciated:				
Building	1,689,254	-	-	1,689,254
Building improvements	687,524	3,000	-	690,524
Furniture, fixtures and equipment	158,922	12,560	-	171,482
Total capital assets being depreciated	<u>2,535,700</u>	<u>15,560</u>	<u>-</u>	<u>2,551,260</u>
Less accumulated depreciation for:				
Building	258,080	56,308	-	314,388
Building improvements	582,767	18,653	-	601,420
Furniture, fixtures and equipment	87,402	21,668	-	109,070
Total accumulated depreciation	<u>928,249</u>	<u>96,629</u>	<u>-</u>	<u>1,024,878</u>
Total capital assets being depreciated, net	<u>1,607,451</u>	<u>(81,069)</u>	<u>-</u>	<u>1,526,382</u>
Total capital assets, net	<u>\$ 2,029,765</u>	<u>(81,069)</u>	<u>-</u>	<u>1,948,696</u>

Depreciation was charged to functions as follows:

Instruction - basic	\$ 21,668
Operation of plant	<u>74,961</u>
	<u>\$ 96,629</u>

5. Long-Term Obligation:

In December 2010, the Foundation issued \$1,963,500 in Educational Facilities Revenue Bonds-Series 2010 to finance the acquisition of the School's facilities for \$2,100,000. The bonds have a 5.59% fixed interest rate, payable in monthly payments of principal and interest of \$13,607 until December 1, 2020 when a balloon payment of \$1,256,384 is due. Collateral for the bonds include the School's facility, assignment of leases and other items specified in a security agreement dated December 1, 2010. The School is a guarantor of the Foundation's debt obligation. The balance of the bonds outstanding at June 30, 2016 was \$1,594,799.

**LAKE EOLA CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS**

5. Long-Term Obligation – continued:

Annual debt service requirements to maturity using a twenty-year amortization are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 74,626	88,654	163,280
2018	78,906	84,374	163,280
2019	83,432	79,848	163,280
2020	88,217	75,063	163,280
2021	<u>1,269,618</u>	<u>35,652</u>	<u>1,305,270</u>
	<u>\$1,594,799</u>	<u>363,591</u>	<u>1,958,390</u>

Following is a summary of changes in the long-term obligation during the current year:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Governmental Activities:					
Bonds Payable	<u>\$1,690,377</u>	<u>-</u>	<u>95,578</u>	<u>1,594,799</u>	<u>74,626</u>

In addition to the monthly payments required by the loan agreement, an additional \$25,000 was paid for principal reduction. Interest expense for the year ended June 30, 2016 was \$92,505.

6. Operating Lease:

Effective December 16, 2010, the date of the School facility purchase by the Foundation, the School entered into a ten year operating lease with the Foundation at \$13,607 monthly, with options to renew for three ten-year periods. Total rent expense under this lease was \$163,280 for the year ended June 30, 2016. This interfund activity has been removed from the government-wide financial statements.

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 163,280
2018	163,280
2019	163,280
2020	163,280
2021	<u>81,640</u>
	<u>\$ 734,760</u>

7. Related Parties:

Two Board members are employees of the School; one is the School's director and the other a teacher. Also, the son of the assistant director was paid \$1,100 for computer services, and the husband of the assistant director was paid \$200 for minor window repairs.

**LAKE EOLA CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS**

8. Contingent Liabilities:

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

9. Risk Management Programs:

General liability, automotive, and health and hospitalization coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. There have been no significant reductions in insurance coverage during the year ended June 30, 2016. Settled claims resulting from these risks have not exceeded commercial coverage for the past three years.

10. Employee Retirement Plan:

The School has a Simplified Employee Pension – Individual Retirement Agreement (SEP-IRA), which covers substantially all employees meeting certain minimum requirements. The plan is entirely employer funded and contributions are based on 10% of participants' compensation. The School's contribution for the year ended June 30, 2016 was \$86,952, of which \$25,229 is reflected as an accrued liability on the statement of net position and governmental funds balance sheets.

11. Due To/Due From:

During the year, the General Fund advanced \$25,000 to the Foundation Fund for principal reduction on the outstanding long-term debt (see Note 5). At June 30, 2016, the General Fund had a due from the Foundation Fund of \$25,123.

12. Fair Value of Financial Assets and Liabilities:

The following are the major categories of assets measured at June 30, 2016, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and, significant unobservable inputs (Level 3).

Description	6/30/2016	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stocks	\$ 816	\$ 816		
Mutual funds	202,983	202,983		
	<u>\$ 203,799</u>	<u>\$ 203,799</u>	<u>\$ -</u>	<u>\$ -</u>

Level 1 – Represented by quoted prices that are available in an active market.

**LAKE EOLA CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS**

13. Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure through September 28, 2016, the date on which the financial statements were available to be issued.

14. Schedule of State and Local Revenue Sources:

Following is a schedule of state and local revenue sources in the General Fund:

<u>Sources</u>	<u>Amount</u>
Orange County School Board:	
Florida Education Finance Program	\$ 945,409
ESE guaranteed allocation	53,066
Instructional materials	17,374
Special millage	121,037
Compression adjustment, net	4,042
SAI	46,607
Safe schools	5,146
Proration FDOE	(2,521)
Class size reduction	237,078
Digital classroom allocation	<u>3,613</u>
Total school board sources	1,430,851
Governor's award funding	21,237
State Teacher Lead funds	<u>3,575</u>
Total state sources	<u>1,455,663</u>
Local Sources:	
Passed through Orange County School Board:	
Discretionary millage funds	84,750
Other:	
Contributions and gifts	29,951
Miscellaneous	<u>7,571</u>
Total local sources	<u>122,272</u>
Total state and local sources	<u>\$1,577,935</u>

15. GASB Pronouncement Implemented:

The School implemented GASB Statement 72 *Fair Value Measurement and Application* during the year ended June 30, 2016. This statement provides guidance for applying fair value to certain investments and expands disclosure related to all fair value measurements. See Notes 3 and 12.

LAKE EOLA CHARTER SCHOOL, INC.
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

for the year ended June 30, 2016

	Budgeted Amounts		Actual	Positive
	Original	Final	Amounts	(Negative) Variance
General Fund				
General Revenues:				
Federal sources	\$ 2,500	\$ 3,290	\$ 3,290	\$ -
State sources	1,467,416	1,544,038	1,455,663	(88,375)
Local sources	22,000	27,857	122,272	94,415
Investment earnings	3,090	141	173	32
Program Revenues:				
Charges for services	24,967	31,858	19,089	(12,769)
Total revenues	1,519,973	1,607,184	1,600,487	(6,697)
Expenditures:				
Instruction - basic	930,288	971,135	951,204	19,931
Instruction - exceptional	22,442	23,100	65,166	(42,066)
Pupil personnel services	286	286	29,530	(29,244)
Instruction and curriculum development	-	-	29,096	(29,096)
School board	13,158	13,000	28,114	(15,114)
School administration	320,432	326,809	160,484	166,325
Fiscal services	15,328	15,462	52,207	(36,745)
Operation of plant	262,520	256,854	264,671	(7,817)
Total expenditures	1,564,454	1,606,646	1,580,472	26,174
Excess of revenues over (under) expenditures	(44,481)	538	20,015	19,477
Fund balance at beginning of year	395,423	395,423	395,423	-
Fund balance at end of year	\$ 350,942	\$ 395,961	\$ 415,438	\$ 19,477

Note 1. Budgets are prepared and original budgets are adopted annually for certain governmental funds in accordance with procedures and time intervals prescribed by the Board of Directors (Board) of the School. During the fiscal year ended June 30, 2016, the Board adopted an annual budget for the General Fund, which was amended one time in June 2016. A budget is not adopted for the Foundation Fund, Capital Outlay Fund, or the Building Fund. The School is not required to submit its budget to any regulatory agencies.

Note 2. Appropriations are controlled at the object level (e.g. salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended at any Board meeting prior to the due date of the annual financial report. Budgets are prepared using the same modified accrual basis as is used to account for actual transactions.

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ASSOCIATION OF
CERTIFIED FRAUD EXAMINERS

INDEPENDENT AUDITORS' 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 of
Lake Eola Charter School, Inc.

We have audited, 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, the financial statements of the governmental activities, and each major fund of Lake Eola Charter School, Inc. (the School), a component unit of the District School Board of Orange County, Florida, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School'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 warrant 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 School'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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Orlando, Florida
September 28, 2016

Holland & Rieilly

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DAVID S. HOLLAND, CPA
THOMAS F. REILLY, CPA

To the Board of Directors of
Lake Eola Charter School, Inc.

We have audited the financial statements of Lake Eola Charter School, Inc. (the School) as of and for the year ended June 30, 2016 and have issued our report thereon dated September 28, 2016.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated September 28, 2016, should be considered in conjunction with this management letter. Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General.

The Rules of the Auditor General (Section 10.854(1)(e)) require disclosure in the management letter of the following matters if not already addressed in the auditors' report on compliance and internal controls:

- 1) Any recommendations to improve financial management.
- 2) Violation of 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 which warrant the attention of those charged with governance.
- 3) For matters that do not warrant the attention of those charged with governance, the following may be reported based on professional judgment:
 - a) Violations of provisions of contracts or grant agreements, fraud or abuse,
 - b) Deficiencies in internal control that are not material weaknesses or significant deficiencies.

There were no matters that came to the attention of the auditor, that, in our judgment, are required to be reported.

Based on our audit procedures performed, the School did not meet any of the conditions described in Florida Statutes Section 218.503(1),

The auditors applied financial condition assessment procedures. It is management's responsibility to monitor the School'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.

We determined the School maintained on its website the information specified in Florida Statutes Section 1002.33(9)(p).

There were no findings in the prior audit report. Thus, no corrective action was necessary.

This management letter is intended solely for the information of Lake Eola Charter School, Inc. and management, others within the entity, the Orange County School Board, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



Orlando, FL
September 28, 2016

AUDITORS' COMMENTS – CURRENT YEAR

NONE

STATUS OF PRIOR YEAR COMMENTS

NONE