

**BABCOCK NEIGHBORHOOD
SCHOOL, INC.**

A Charter School and Component Unit of the
District School Board of Charlotte County, Florida

INDEPENDENT AUDITOR'S REPORT

for the fiscal year ended JUNE 30, 2019

King & Walker, CPAs, PL

Certified Public Accountants

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BABCOCK NEIGHBORHOOD SCHOOL, INC.

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Independent Auditor's Report

To the Board of Directors Babcock Neighborhood School, Inc.,
a Charter School and Component Unit of the
District School Board of Charlotte County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Babcock Neighborhood School, Inc. ("School"), a charter school and component unit of the District School Board of Charlotte County, Florida, as of and for the year ended June 30, 2019, 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 *Governmental 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 School'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 School'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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2019, and the respective changes in financial position thereof for the year 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, the Budgetary Comparison Schedule, and Note to Required Supplementary Information, as shown 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 historic 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 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 August 26, 2019 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.

Respectfully submitted,

Handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive, professional style.

August 26, 2019
Tampa, Florida

BABCOCK NEIGHBORHOOD SCHOOL, INC.

A Charter School and Component Unit of the District School Board of Charlotte County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

The Management's Discussion and Analysis (MD&A) section of the annual financial report of the Babcock Neighborhood School, Inc. ("School") provides an overview of the School's activities for the fiscal year ended June 30, 2019.

Because the information contained in the MD&A is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the School's financial statements and notes to financial statements, as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2019, the School's expenses exceeded revenues as shown on the School's statement of activities by \$996,131.
- As shown on the statement of net assets, the School reported a total net position of \$1,110,811.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- ✓ Government-wide financial statements
- ✓ Fund financial statements
- ✓ Notes to financial statements

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the School presented on the accrual basis of accounting. The statement of net position provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net position, is a measure of the financial health of the School. The statement of activities presents information about the change in the School's net position and the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the School's financial health is improving or deteriorating. To assess the overall financial position of the School, one needs to consider additional non-financial factors such as changes in the School student base funding level.

BABCOCK NEIGHBORHOOD SCHOOL, INC.

A Charter School and Component Unit of the District School Board of Charlotte County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. 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. Fund financial statements provide more detailed information about the School's financial activities, focusing on its most significant funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide financial statements.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund financial statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund financial statements provide a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental fund to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the School's most significant funds. The School operates the following funds; a General Fund to account for its general operations and internal account activities; a Debt Service Fund to account for bonded debt; a Capital Projects Fund to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays; and a Special Revenue Fund to account for Federal grant programs. For reporting purposes, all funds are considered major funds.

The School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the General Fund and Special Revenue Fund to demonstrate compliance with the budget.

Notes to 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.

BABCOCK NEIGHBORHOOD SCHOOL, INC.*A Charter School and Component Unit of the District School Board of Charlotte County, Florida***MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)****GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following is a summary of the School's current year net position:

| | Net Position, End of Year | | |
|----------------------------------|----------------------------------|---------------------|------------------------|
| | Governmental Activities | | |
| | 6-30-18 | 6-30-19 | Increase (Decrease) |
| ASSETS | | | |
| Current and Other Assets | \$ 6,856,666 | \$ 2,066,751 | \$ (4,789,915) |
| Capital Assets, net | 11,447,965 | 12,710,136 | 1,262,171 |
| Total Assets | <u>18,304,631</u> | <u>14,776,887</u> | <u>(3,527,744)</u> |
| LIABILITIES | | | |
| Current Liabilities | 3,043,639 | 476,427 | (2,567,212) |
| Long Term Liabilities | 13,184,050 | 13,189,949 | 5,899 |
| Total Liabilities | <u>16,227,689</u> | <u>13,666,376</u> | <u>(2,561,313)</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | 340,273 | 170,496 | (169,777) |
| Restricted for Debt Service | 2,129,525 | 1,215,490 | (914,035) |
| Unrestricted | <u>(392,856)</u> | <u>(275,175)</u> | <u>117,681</u> |
| Total Net Position | <u>\$ 2,076,942</u> | <u>\$ 1,110,811</u> | <u>\$ (966,131)</u> |

Current assets consist primarily of cash and cash equivalents for the School's bank accounts and bonded debt. Capital assets consist of land, buildings, and furniture, fixtures and equipment. Long-Term liabilities consist primarily of outstanding bonded debt for the construction of the School's facility. The School reported a total net position balance of \$1,110,811.

BABCOCK NEIGHBORHOOD SCHOOL, INC.

A Charter School and Component Unit of the District School Board of Charlotte County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

The following is a summary of the School's net position for the current year:

| | Operating Results for the Year | | |
|--|--------------------------------|---------------------|------------------------|
| | Governmental Activities | | Increase (Decrease) |
| | 6-30-18 | 6-30-19 | |
| Revenues: | | | |
| Federal Through Local | \$ 339,293 | \$ 299,066 | \$ (40,227) |
| State Sources | 1,075,048 | 2,407,336 | 1,332,288 |
| Local and Other | 2,622,765 | 642,639 | (1,980,126) |
| Total Revenues | 4,037,106 | 3,349,041 | (688,065) |
| Expenses: | | | |
| Instruction | 773,731 | 1,657,596 | 883,865 |
| Instructional Media | 4,042 | 3,050 | (992) |
| Instruction & Curriculum Development | 31,387 | 24,785 | (6,602) |
| Instructional Staff Training | 7,335 | 26,337 | 19,002 |
| Board of Education | 10,197 | 11,765 | 1,568 |
| General Administration | - | 3,848 | 3,848 |
| School Administration | 315,305 | 434,212 | 118,907 |
| Facilities Acq. & Construction | 201,916 | - | (201,916) |
| Fiscal Services | 168,662 | 164,051 | (4,611) |
| Food Services | 54,381 | 79,653 | 25,272 |
| Central Services | 2,903 | 2,044 | (859) |
| Pupil Transportation | - | 5,944 | 5,944 |
| Operation of Plant | 79,707 | 334,212 | 254,505 |
| Maintenance of Plant | 35,301 | 121,409 | 86,108 |
| Administrative Technology Services | 3,870 | 5,616 | 1,746 |
| Community Service | - | 41,298 | 41,298 |
| Debt Service-Interest & Fiscal Charges | 51,031 | 1,130,111 | 1,079,080 |
| Amortization of Bond Discount | - | 5,598 | 5,598 |
| Unallocated Depreciation | 14,006 | 263,643 | 249,637 |
| Total Expenses | 1,753,774 | 4,315,172 | 2,561,398 |
| Increase/(Decrease) in Net Position | \$ 2,283,332 | \$ (966,131) | \$ (3,249,463) |

The largest revenue continuous source for the School is the State of Florida (72 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data to determine the funds available for the School. The Schools FEFP increased due to the significant increase in enrollment.

The largest concentrations of expenses were for Instruction related functions and debt service which represents 40 percent and 26 percent of total expenditures, respectively.

BABCOCK NEIGHBORHOOD SCHOOL, INC.

A Charter School and Component Unit of the District School Board of Charlotte County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

As the School completed the year, its governmental funds reported a combined fund balance of \$1,894,070.

LONG-TERM LIABILITIES

On March 18, 2018, the School issued revenue bonds in the amount of \$12,730,000 for the construction of a new educational facility. The bonds will be repaid incrementally over the next 35 years.

The School also received a \$650,000 from the Babcock Ranch Foundation to fund startup costs of the School. The remaining years for repayment on this loan is 5 years.

Additional information regarding the School's long-term liabilities can be found in the Notes to the financial statements.

CAPITAL ASSETS

The School's investment in capital assets for its governmental activities as of June 30, 2019, amounts to \$12,710,136 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and furniture, fixtures, and equipment. Additional information regarding the School's capital assets can be found in the Notes to the financial statements.

BUDGETARY HIGHLIGHTS

The general fund budget for the fiscal year ended June 30, 2019, was developed based on the School's anticipated revenues and expenditures and the expected student population for the school year. Over the course of the year, the School revised its general fund budget. Refer to the Budgetary Comparison Schedule for additional information.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of 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 Director, Babcock Neighborhood School, Inc., 42850 Crescent Loop, Babcock Ranch, Florida 33982.

BABCOCK NEIGHBORHOOD SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF CHARLOTTE COUNTY, FLORIDA

STATEMENT OF NET POSITION
June 30, 2019

| ASSETS | <u>Governmental Activities</u> |
|---|------------------------------------|
| Cash & Cash Equivalents | \$ 1,835,687 |
| Pledge Receivable | 169,000 |
| Due From Other Agency | 37,372 |
| Deposits | 24,692 |
| Capital Assets: | |
| Land | 2,400,000 |
| Buildings, Net | 10,116,168 |
| Furniture, Fixtures, and Equipment, Net | 193,968 |
| Total Capital Assets, Net | <u>12,710,136</u> |
| TOTAL ASSETS | <u><u>14,776,887</u></u> |
| LIABILITIES | |
| Accounts Payable | 25,105 |
| Salary and Benefits Payable | 147,576 |
| Accrued Interest on Bonds | 303,746 |
| Long-Term Liabilities: | |
| Due after one year - Bonds Payable | 12,539,649 |
| Due after one year - Note Payable | 650,000 |
| TOTAL LIABILITIES | <u><u>13,666,076</u></u> |
| NET POSITION | |
| Net Investment in Capital Assets | 170,496 |
| Restricted for Debt Service | 1,215,490 |
| Unrestricted | <u>(275,175)</u> |
| TOTAL NET POSITION | <u><u>\$ 1,110,811</u></u> |

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

BABCOCK NEIGHBORHOOD SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF CHARLOTTE COUNTY, FLORIDA

STATEMENT OF ACTIVITIES
for the Fiscal Year ended June 30, 2019

| | Expenses | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Position Governmental Activities |
|--|---------------------|----------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental Activities: | | | | | |
| Instruction | \$ 1,657,596 | \$ - | \$ 238,985 | \$ - | \$ (1,418,611) |
| Instructional Media | 3,050 | | 3,050 | | - |
| Instruction & Curriculum Development | 24,785 | | 20,500 | | (4,285) |
| Instructional Staff Training | 26,337 | | | | (26,337) |
| Board of Education | 11,765 | | | | (11,765) |
| General Administration | 3,848 | | | | (3,848) |
| School Administration | 434,212 | | | | (434,212) |
| Fiscal Services | 164,051 | | | | (164,051) |
| Food Services | 79,653 | 17,108 | 36,531 | | (26,014) |
| Central Services | 2,044 | | | | (2,044) |
| Pupil Transportation | 5,944 | | | | (5,944) |
| Operation of Plant | 334,212 | | | | (334,212) |
| Maintenance of Plant | 121,409 | | | | (121,409) |
| Administrative Technology Services | 5,616 | | | | (5,616) |
| Community Service | 41,298 | | | | (41,298) |
| Debt Service - Interest & Fiscal Charges | 1,130,111 | | | | (1,130,111) |
| Amortization of Bond Discount | 5,598 | | | | (5,598) |
| Unallocated Depreciation | 263,643 | | | | (263,643) |
| Total Governmental Activities | \$ 4,315,172 | \$ 17,108 | \$ 299,066 | \$ - | (3,998,998) |
| General Revenues: | | | | | |
| State Sources | | | | | 2,407,336 |
| Local and Other | | | | | 625,531 |
| Total General Revenues | | | | | 3,032,867 |
| Change in Net Position | | | | | (966,131) |
| Net Position - July 1, 2018 | | | | | 2,076,942 |
| Net Position - June 30, 2019 | | | | | \$ 1,110,811 |

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

BABCOCK NEIGHBORHOOD SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF CHARLOTTE COUNTY, FLORIDA

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2019

| | General Fund | Special Revenue Fund | Debt Service Fund | Capital Project Fund | Total Governmental Funds |
|-------------------------------------|-----------------|----------------------------|-------------------------|----------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash & Cash Equivalents | \$ 316,442 | \$ - | \$ 1,519,236 | \$ 9 | \$ 1,835,687 |
| Pledge Receivable | 169,000 | | | | 169,000 |
| Due From Other Agency | 37,372 | | | | 37,372 |
| Deposits | 24,692 | | | | 24,692 |
| Total Assets | \$ 547,506 | \$ - | \$ 1,519,236 | \$ 9 | \$ 2,066,751 |
| LIABILITIES | | | | | |
| Accounts Payable | \$ 25,105 | \$ - | \$ - | \$ - | \$ 25,105 |
| Salary and Benefits Payable | 147,576 | | | | 147,576 |
| Total Liabilities | 172,681 | - | - | - | 172,681 |
| FUND BALANCES | | | | | |
| Nonspendable | 24,692 | | | | 24,692 |
| Restricted | | | 1,519,236 | 9 | 1,519,245 |
| Unassigned | 350,133 | | | | 350,133 |
| Total Fund Balances | 374,825 | - | 1,519,236 | 9 | 1,894,070 |
| Total Liabilities and Fund Balances | \$ 547,506 | \$ - | \$ 1,519,236 | \$ 9 | \$ 2,066,751 |

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

BABCOCK NEIGHBORHOOD SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF CHARLOTTE COUNTY, FLORIDA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
for the Fiscal Year ended June 30, 2019

| | | |
|--|------------|--------------|
| Total Fund Balances - Governmental Funds | \$ | 1,894,070 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. | | 12,710,136 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of: | | |
| Bonds Payable | 12,539,649 | |
| Note Payable | 650,000 | |
| Accrued Interest on Bonds | 303,746 | (13,493,395) |
| Total Net Position - Governmental Activities | \$ | 1,110,811 |

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

BABCOCK NEIGHBORHOOD SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF CHARLOTTE COUNTY, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
for the Fiscal Year ended June 30, 2019

| | General Fund | Special Revenue Fund | Debt Service Fund | Capital Projects Fund | Total Governmental Funds |
|---|--------------------|----------------------------|-------------------------|-----------------------------|--------------------------------|
| Revenues | | | | | |
| Intergovernmental: | | | | | |
| Federal Through Local State Sources | \$ - | \$ 299,066 | \$ - | \$ - | \$ 299,066 |
| Local and Other | 2,407,336 | 17,108 | 25,517 | 21,586 | 2,407,336 |
| Total Revenues | <u>2,985,764</u> | <u>316,174</u> | <u>25,517</u> | <u>21,586</u> | <u>3,349,041</u> |
| Expenditures | | | | | |
| Current - Education: | | | | | |
| Instruction | 1,512,294 | 145,302 | | | 1,657,596 |
| Instructional Media | | 3,050 | | | 3,050 |
| Instruction & Curriculum Development | 4,285 | 20,500 | | | 24,785 |
| Instructional Staff Training | 26,337 | | | | 26,337 |
| Board of Education | 11,765 | | | | 11,765 |
| General Administration | 3,848 | | | | 3,848 |
| School Administration | 434,212 | | | | 434,212 |
| Fiscal Services | 164,051 | | | | 164,051 |
| Food Services | | 79,653 | | | 79,653 |
| Central Services | 2,044 | | | | 2,044 |
| Pupil Transportation | 5,944 | | | | 5,944 |
| Operation of Plant | 334,212 | | | | 334,212 |
| Maintenance of Plant | 121,409 | | | | 121,409 |
| Administrative Technology Services | 5,616 | | | | 5,616 |
| Community Service | 41,298 | | | | 41,298 |
| Fixed Capital Outlay: | | | | | |
| Facilities Acquisition & Construction | 1,421,759 | | | | 1,421,759 |
| Other Capital Outlay | 10,372 | 93,683 | | | 104,055 |
| Debt Service: | | | | | |
| Interest and Fiscal Charges | 43,804 | | 782,561 | | 826,365 |
| Total Expenditures | <u>4,143,250</u> | <u>342,188</u> | <u>782,561</u> | <u>-</u> | <u>5,267,999</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(1,157,486)</u> | <u>(26,014)</u> | <u>(757,044)</u> | <u>21,586</u> | <u>(1,918,958)</u> |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | 1,447,935 | 26,014 | 146,754 | - | 1,620,703 |
| Transfers Out | (172,768) | | | (1,447,935) | (1,620,703) |
| Total Other Financing Sources (Uses) | <u>1,275,167</u> | <u>26,014</u> | <u>146,754</u> | <u>(1,447,935)</u> | <u>-</u> |
| Net Change in Fund Balances | 117,681 | - | (610,290) | (1,426,349) | (1,918,958) |
| Fund Balances, July 1, 2018 | 257,144 | - | 2,129,526 | 1,426,358 | 3,813,028 |
| Fund Balances, June 30, 2019 | <u>\$ 374,825</u> | <u>\$ -</u> | <u>\$ 1,519,236</u> | <u>\$ 9</u> | <u>\$ 1,894,070</u> |

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

BABCOCK NEIGHBORHOOD SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF CHARLOTTE COUNTY, FLORIDA

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
TO THE STATEMENT OF ACTIVITIES
for the Fiscal Year ended June 30, 2019

| | | |
|---|----|-------------|
| Net Change in Fund Balances - Governmental Funds | \$ | (1,918,958) |
|---|----|-------------|

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

Capital outlays are reported in governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

| | | |
|--|--|-----------|
| This is the amount of capital outlays (\$1,525,814) in excess of depreciation expense (\$263,643) in the current period. | | 1,262,171 |
|--|--|-----------|

Expenses in the statement of activities that do not require the use of current financial resources are not reported in the governmental funds:

| | | |
|-------------------------------|-----------|-----------|
| Accrued Interest on Bonds | (303,746) | |
| Amortization of bond discount | (5,598) | |
| | | (309,344) |

| | | |
|---|-----------|------------------|
| Change in Net Position - Governmental Activities | \$ | (966,131) |
|---|-----------|------------------|

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

BABCOCK NEIGHBORHOOD SCHOOL, INC.

A Charter School and Component Unit of the District School Board of Charlotte County, Florida

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ Reporting Entity

The Babcock Neighborhood School, Inc. ("School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors, which is comprised of not less than three members.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Charlotte County, Florida, ("District"). The current charter has been renewed and is effective until June 30, 2022, and is subject to annual review and may be renewed by mutual agreement between the School and the District. 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 this 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. In the event of termination of the charter, the District shall assume operation of the School. The School is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units which should be reported within the School's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

➤ Basis of Presentation

Government-wide Financial Statements - Government-wide financial statements, including the statement of net position and the statement of activities, present information about the School as a whole.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting

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NOTES TO FINANCIAL STATEMENTS

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the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School.

Fund Financial Statements - Fund financial statements report detailed information about the School in the governmental funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The School's major governmental funds are as follows:

- General Fund – to account 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.
- Special Revenue Fund – to account for federal grant programs and food service operations.
- Debt Service Fund – to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and related costs.
- Capital Projects Fund – to account for all resources for the acquisition of capital and related items purchased by the School with bond proceeds and capital outlay funds.

➤ Basis of Accounting

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

The government-wide financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become 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. The School considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for

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determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

➤ **Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term liquid investments with original maturities of three months or less at the date of acquisition.

Cash deposits consist of demand deposits held by local financial institutions. Deposits on hand at financial institutions are insured by the Federal Deposit Insurance Company up to \$250,000.

➤ **Investments**

The School had not adopted a written investment policy. Therefore, pursuant to Florida Statutes, the School is authorized to invest in the Florida PRIME investment pool, administered by the State Board of Administration (SBA); Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; and direct obligations of the United States Treasury.

The School's investments are set aside to make debt service payments, maintain sinking or reserve funds, and to purchase or construct capital assets and are classified as restricted. These investments are reported as restricted in the Debt Service and Capital Projects Funds in the Balance Sheet – Governmental Funds.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general School purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the School as those costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Furniture, Fixtures and Equipment | 5 years |
| Buildings | 39 years |

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➤ Noncurrent Liabilities

Long-term obligations that will be financed by resources to be received in the future by the general fund are reported in the government-wide financial statements, not in the general fund. Capital improvement debt is reported net of unamortized discount. The School amortizes debt discounts over the life of the debt using the straight-line method. Current-year information relative to changes in long-term debt is described in subsequent notes.

➤ Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial 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 then. The School does not have any items that qualify for reporting in this category.

➤ Net Position and Fund Balance Classification

Government-wide Financial Statements

Net Position are classified and reported in three components:

- Net Investment in Capital Assets – consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.
- Restricted Net Position – consists of net position with constraints placed on their use either by external groups such as creditors, contributors, or laws or regulations of other governments.
- Unrestricted Net Position – all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned). All

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nonspendable fund balances at year end relate to assets that are in nonspendable form.

- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

➤ **Order of Fund Balance Spending Policy**

The School’s policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including nonspendable amounts). Any remaining fund balance amounts for the non-general funds are to be classified as restricted fund balance. It is possible for the non-general funds to be classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when nonspendable amounts plus the amount of restricted fund balances for specific purposes exceed the positive fund balance for non-general fund.

➤ **Revenue Sources**

Revenues for current operations are 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(17), Florida Statutes, the School reports the number of full-time equivalent students and related data to the District.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent 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 (FTE) students reported by the School during designated full-time equivalent student survey periods. 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 District receives a 5% administrative fee from the School, which is reflected in the accompanying statement of activities and statement of revenues, expenditures and change in fund balances – governmental funds.

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The basic amount of funding through the FEFP under Section 1011.62 is the product of the (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 Section 1011.62(1)(e)2., Florida Statutes. For the fiscal year ended June 30, 2019, the School reported 339.66 unweighted FTE and 357.264 weighted FTE.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Florida Auditor General pursuant to Section 1010.305, Florida Statutes, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain the following documentation for three years or until the completion of an FTE audit:

- Attendance and membership documentation (Rule 6A-1.044, FAC).
- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC).
- Documentation for instructors teaching out-of-field (Rule 6A-1.0503, FAC).
- Procedural safeguards for weighted programs (Rule 6A-6.03411, FAC).
- Evaluation and planning documents for weighted programs (Section 1010.305, Florida Statutes, and Rule 6A-6.03411, FAC).

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

The School also receives state funds through the District under charter school capital outlay funding pursuant to Section 1013.62, Florida Statutes. Funds are based upon a capital outlay plan submitted to the District and are to be used for lease, rent or construction of school facilities. The School also receives funding through donations and fundraising efforts, school lunch sales and local property tax collections.

The School follows the policy of applying restricted resources prior to applying unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

➤ **Recently Issued Accounting Principles**

Governmental Accounting Standards Board Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements was effective for fiscal years beginning after June 15, 2018. The School's notes related to debt reflect all required disclosures.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

➤ **Income Taxes**

The School is exempt from Federal tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to financial statements. The School's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

➤ **Use of Estimates**

In preparing the financial statements in conformity with generally accepted accounting principles in the United States (GAAP) management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and affect revenues and expenditures for the period presented. Actual results could differ from those estimates.

➤ **Subsequent Events**

Management has evaluated all events subsequent to the balance sheet date and through the report date, which is the date these financial statements were available to be issued. Management determined there are no subsequent events which require disclosure.

2. CASH DEPOSITS

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School does not have a custodial credit risk policy. Deposits on hand at financial institutions are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. As of June 30, 2019, the School was exposed to custodial credit risk. One of the School's bank accounts exceeded the FDIC insurance limit by \$50,745.

3. INVESTMENTS

The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

All of the School's recurring fair value measurements as of June 30, 2019 are valued using quoted market prices (Level 1 inputs).

The School's investments at June 30, 2019, are reported as follows:

| Investment | Amount |
|---|--------------|
| Regions bank - Morgan Stanley Institutional | |
| Liquidity Funds - Treasury Portfolio | \$ 1,519,245 |
| Total | \$ 1,519,245 |

This investment is reported as a cash equivalent for financial statement reporting purposes.

BABCOCK NEIGHBORHOOD SCHOOL, INC.

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4. DUE FROM OTHER AGENCY

The amount due from other agency included in the accompanying statement of net position and balance sheet – governmental funds consists of an amount for expenditures made for a grant awaiting reimbursement from the District. This receivable is considered to be fully collectible and as such, no allowance for uncollectible accounts has been established.

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|----------------------|----------------------|-----------------------|----------------------|
| <u>GOVERNMENTAL ACTIVITIES</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 2,400,000 | \$ - | \$ - | \$ 2,400,000 |
| Construction in Progress | 8,926,583 | | (8,926,583) | - |
| Total Capital Assets Not Being Depreciated | <u>11,326,583</u> | <u>-</u> | <u>(8,926,583)</u> | <u>2,400,000</u> |
| Capital Assets Being Depreciated: | | | | |
| Buildings | - | 10,348,342 | | 10,348,342 |
| Furniture, Fixtures and Equipment | 135,638 | 104,055 | | 239,693 |
| Total Capital Assets Being Depreciated | <u>135,638</u> | <u>10,452,397</u> | <u>-</u> | <u>10,588,035</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | - | (232,174) | | (232,174) |
| Furniture, Fixtures and Equipment | (14,256) | (31,469) | | (45,725) |
| Total Accumulated Depreciation | <u>(14,256)</u> | <u>(263,643)</u> | <u>-</u> | <u>(277,899)</u> |
| Total Capital Assets Being Depreciated, Net | <u>121,382</u> | <u>10,188,754</u> | <u>-</u> | <u>10,310,136</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 11,447,965</u> | <u>\$ 10,188,754</u> | <u>\$ (8,926,583)</u> | <u>\$ 12,710,136</u> |

All depreciation expense was shown as unallocated on the Statement of Activities.

6. NOTE PAYABLE

The School in January 2017, signed an unsecured promissory note with the Babcock Ranch Foundation, Inc. (Foundation) for \$650,000 to be paid over 7 years. The primary purpose of the Note was to fund start-up costs of the School. The current repayment requirement calls for interest only payments for the first 36 months and principal and interest payments until maturity over the next 48 months at an interest rate of 3 percent.

In the case of non-payment, the Foundation shall give notice to the School prior to acceleration following School's breach of any agreement in this Note. The notice shall specify: (a) default; (b) the action required to cure the default; (c) a date, not less than 30 days from the date the notice is given to School, by which the default must be cured; and (d) that failure to cure the default on or before the date specified in the notice may result in acceleration of the sums owed under this Note. If default is not cured on or before the date specified in the notice, the Foundation, at its option, may require immediate payment of all sums due under this Note without further demand and may move to collect all sums due and owing under this Note by judicial proceeding. The Foundation shall be entitled to collect all expenses

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June 30, 2019

incurred in pursuing the remedies provided herein, including, but not limited to, reasonable attorney fees and costs.

The annual requirements amortize the note payable outstanding at June 30, 2019, is as follows:

| Fiscal Year Ending June 30: | Total | Principal | Interest |
|--------------------------------|-------------------|-------------------|------------------|
| 2020 | \$ 19,500 | \$ - | \$ 19,500 |
| 2021 | 192,278 | 174,735 | 17,543 |
| 2022 | 226,834 | 215,523 | 11,311 |
| 2023 | 226,833 | 222,078 | 4,755 |
| 2024 | 37,805 | 37,664 | 141 |
| Total | <u>\$ 703,250</u> | <u>\$ 650,000</u> | <u>\$ 53,250</u> |

7. BONDS PAYABLE

Bonds payable at June 30, 2019, are as follows:

| Bond Type | Amount Outstanding | Interest Rates | Annual Maturity To |
|--|-----------------------|---------------------------|-----------------------|
| Revenue Bonds: | | | |
| Series 2018 | \$ 12,730,000 | 5.900 to 6.375 percent | 2054 |
| <i>less: Unamortized Bond Discount</i> | <u>(190,351)</u> | | |
| Total Bonds Payable | <u>\$ 12,539,649</u> | | |

Revenue Bonds Series 2018 – On March 18, 2018, the School issued tax-exempt revenue bonds (Series 2018) for \$12,730,000 secured by a mortgage on the School’s property and buildings. The bonds were issued to construct a school facility on land owned by the School.

Series 2018 bonds are term bonds paying interest semi-annually at a rate ranging from 5.900% to 6.375% with maturities starting 8/15/2024, and ending 8/15/2053.

As required by the bond resolution, the District has established a sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

In the event of default for non-payment of principal or interest on the bonds, the outstanding amounts will become due and payable. The School is required to disclose its debt service coverage ratio and days cash on hand as described in the Loan Agreement. The minimum debt service coverage ratio is 1.1 to 1 (the “debt Service Coverage Requirement”) as of June 30, 2019. The School’s debt service coverage ratio as calculated was 2.19. Further, the School agrees to have cash on hand at June 30, 2019 and each June 30 until the bonds are no longer outstanding in an amount not less than 30 days cash on hand at June 30, 2019, not less than 45 days at June 30, 2020, and not less than 60 days at

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A Charter School and Component Unit of the District School Board of Charlotte County, Florida

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

June 30, 2021 and thereafter. As of June 30, 2019, the Schools number of days cash on hand was 40.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2019, are as follows:

| Fiscal Year Ending June 30: | Total | Principal | Interest |
|--|-----------------------------|-----------------------------|-----------------------------|
| 2020 | \$ 790,681 | \$ - | \$ 790,681 |
| 2021 | 790,681 | - | 790,681 |
| 2022 | 790,681 | - | 790,681 |
| 2023 | 790,681 | - | 790,681 |
| 2024 | 790,681 | - | 790,681 |
| 2025-2029 | 4,726,557 | 900,000 | 3,826,557 |
| 2030-2034 | 4,709,514 | 1,195,000 | 3,514,514 |
| 2035-2039 | 4,695,258 | 1,605,000 | 3,090,258 |
| 2040-2044 | 4,671,001 | 2,155,000 | 2,516,001 |
| 2045-2049 | 4,654,956 | 2,920,000 | 1,734,956 |
| 2050-2054 | 4,616,566 | 3,955,000 | 661,566 |
| <i>less: Unamortized Bond Discount</i> | <i>(190,351)</i> | <i>(190,351)</i> | <i>-</i> |
| Total | <u>\$ 31,836,906</u> | <u>\$ 12,539,649</u> | <u>\$ 19,297,257</u> |

8. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

| Governmental Activities: | Balance | Additions | Deductions | Balance | One Year |
|-------------------------------|----------------------|-------------|-----------------|----------------------|-------------|
| Note Payable | \$ 650,000 | \$ - | \$ - | \$ 650,000 | \$ - |
| Bonds Payable | 12,730,000 | | - | 12,730,000 | - |
| Unamortized Discount | (195,950) | | 5,599 | (190,351) | - |
| Total Bonds Payable | <u>12,534,050</u> | <u>-</u> | <u>5,599</u> | <u>12,539,649</u> | <u>-</u> |
| Total Governmental Activities | <u>\$ 13,184,050</u> | <u>\$ -</u> | <u>\$ 5,599</u> | <u>\$ 13,189,649</u> | <u>\$ -</u> |

9. INTERFUND TRANSFERS

The School's General Fund transferred \$146,754 to the Debt Service Fund and the Capital Projects Fund transferred \$1,447,935 to the General Fund for transactions associated with the School's bond issue and construction. The General Fund transferred \$26,014 to the Special Revenue Fund to fund the School's food service program. These amounts of interfund transfers are netted together and not reported in the statement of activities.

BABCOCK NEIGHBORHOOD SCHOOL, INC.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the School's State revenue:

| Source | Amount |
|-------------------------------------|---------------------|
| Florida Education Finance Program | \$ 1,475,351 |
| Class Size Reduction | 390,793 |
| Discretionary Local Effort | 279,319 |
| Supplementary Academic Instruction | 75,633 |
| FL Best & Brightest Program | 42,347 |
| Instructional Materials | 26,016 |
| ESE Guaranteed Allocation | 24,577 |
| Safe Schools | 22,248 |
| Reading Allocation | 16,198 |
| School Recognition | 15,638 |
| Digital Classroom Allocation | 15,219 |
| Mental Health Assistance | 9,710 |
| Miscellaneous | 7,305 |
| Teachers' Supply Assistance Program | 5,864 |
| Discretionary Lottery | 1,118 |
| Total State Revenue | <u>\$ 2,407,336</u> |

As provided in the charter school contract, the District has charged the School an administrative fee of \$85,889.

11. TRANSACTIONS WITH DEVELOPER

Babcock Property Holdings, LLC ("BPH") is the developer of the Babcock Ranch community in which the School is located. On March 5, 2018, BPH donated the 9.6 acre school site to the School. The appraised value of the land was \$2,400,000 and was recorded as a donation and a capital expenditure in the School's fund statements and as land in the School's statement of net assets.

On March 5, 2018, the School entered into a Limited Financial Support Agreement with BPH in which BPH will make donations of up to \$50,000 per year for the 2018-19 and 2019-20 fiscal years and of up to \$100,000 per year for the 2020-21 and 2021-22 fiscal years if the School's annual gross revenues fall below certain levels.

12. RISK MANAGEMENT PROGRAMS

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. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

BABCOCK NEIGHBORHOOD SCHOOL, INC.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2019

13. FUNDING AND CREDIT RISK CONCENTRATIONS

The School receives substantially all of its support and revenue from 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.

14. COMMITMENTS AND CONTINGENT LIABILITIES

The School participates in state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivables at June 30, 2019, may be impaired.

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

15. 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.

BABCOCK NEIGHBORHOOD SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF CHARLOTTE COUNTY, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND AND MAJOR SPECIAL REVENUE FUND - (UNAUDITED)
For the Fiscal Year Ended June 30, 2019

| | General Fund | | | | Special Revenue Fund | | | |
|---|------------------|-------------------|-------------------|--|----------------------|----------------|----------------|--|
| | Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) | Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| Revenues: | | | | | | | | |
| Intergovernmental: | | | | | | | | |
| Federal Through Local | \$ - | \$ - | \$ - | \$ - | \$ 337,464 | \$ 299,066 | \$ 299,066 | \$ - |
| State Sources | 2,324,735 | 2,407,336 | 2,407,336 | - | - | - | - | - |
| Local and Other | 165,000 | 578,428 | 578,428 | - | 17,000 | 17,108 | 17,108 | - |
| Total Revenues | 2,489,735 | 2,985,764 | 2,985,764 | - | 354,464 | 316,174 | 316,174 | - |
| Expenditures: | | | | | | | | |
| Current - Education: | | | | | | | | |
| Instruction | 1,173,023 | 1,512,294 | 1,512,294 | - | 192,021 | 145,302 | 145,302 | - |
| Instructional Media | - | - | - | - | - | 3,050 | 3,050 | - |
| Instruction & Curriculum Development | 124,200 | 4,285 | 4,285 | - | - | 20,500 | 20,500 | - |
| Instructional Staff Training | 7,650 | 26,337 | 26,337 | - | - | - | - | - |
| Board of Education | 10,000 | 11,765 | 11,765 | - | - | - | - | - |
| General Administration | - | 3,848 | 3,848 | - | - | - | - | - |
| School Administration | 394,661 | 434,212 | 434,212 | - | - | - | - | - |
| Fiscal Services | 186,904 | 164,051 | 164,051 | - | - | - | - | - |
| Food Services | - | - | - | - | 162,443 | 79,653 | 79,653 | - |
| Central Services | 2,050 | 2,044 | 2,044 | - | - | - | - | - |
| Pupil Transportation | - | 5,944 | 5,944 | - | - | - | - | - |
| Operation of Plant | 487,992 | 334,212 | 334,212 | - | - | - | - | - |
| Maintenance of Plant | 5,500 | 121,409 | 121,409 | - | - | - | - | - |
| Administrative Technology Services | 4,000 | 5,616 | 5,616 | - | - | - | - | - |
| Community Service | - | 41,298 | 41,298 | - | - | - | - | - |
| Fixed Capital Outlay: | | | | | | | | |
| Facilities Acquisition & Construction | - | 1,421,759 | 1,421,759 | - | - | - | - | - |
| Other Capital Outlay | - | 10,372 | 10,372 | - | - | 93,683 | 93,683 | - |
| Debt Service: | | | | | | | | |
| Interest and Fiscal Charges | 281,681 | 43,804 | 43,804 | - | - | - | - | - |
| Total Expenditures | 2,677,661 | 4,143,250 | 4,143,250 | - | 354,464 | 342,188 | 342,188 | - |
| Excess (Deficiency) of Revenues Over Expenditures | (187,926) | (1,157,486) | (1,157,486) | - | - | (26,014) | (26,014) | - |
| Other Financing Sources (Uses): | | | | | | | | |
| Transfers In | - | 1,447,935 | 1,447,935 | - | - | 26,014 | 26,014 | - |
| Transfers Out | - | (172,768) | (172,768) | - | - | - | - | - |
| Total Other Financing Sources (Uses) | - | 1,275,167 | 1,275,167 | - | - | 26,014 | 26,014 | - |
| Net Change in Fund Balance | (187,926) | 117,681 | 117,681 | - | - | - | - | - |
| Fund Balance, July 1, 2018 | 257,144 | 257,144 | 257,144 | - | - | - | - | - |
| Fund Balance, June 30, 2019 | \$ 69,218 | \$ 374,825 | \$ 374,825 | \$ - | \$ - | \$ - | \$ - | \$ - |

See Independent Auditor's Report.

BABCOCK NEIGHBORHOOD SCHOOL, INC.

A Charter School and Component Unit of the District School Board of Charlotte County, Florida

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2019

1. BUDGETARY BASIS OF ACCOUNTING

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 for the annual report.

Members:
Florida Institute of CPAs
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Government Audit Quality Center

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Tampa, FL 33618
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www.KingandWalker.com

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 Babcock Neighborhood School, Inc.,
a Charter School and Component Unit of the
District School Board of Charlotte County, 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, each major fund, and the aggregate remaining fund information of Babcock Neighborhood School, Inc. ("School"), a charter school and component unit of the District School Board of Charlotte County, Florida, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 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 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 School's financial statements are free from material misstatement, we performed tests of 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.

Respectfully submitted,

Handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive style.

August 26, 2019
Tampa, Florida

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**Management Letter as Required by Rules of the Florida Auditor General,
Chapter 10.850, Florida Statutes, *Charter School Audits***

To the Board of Directors Babcock Neighborhood School, Inc.,
a Charter School and Component Unit of the
District School Board of Charlotte County, Florida

Report on the Financial Statements

We have audited the financial statements of Babcock Neighborhood School, Inc. ("School"), a Charter School and Component Unit of the District School Board of Charlotte County, Florida, as of and for the fiscal year ended June 30, 2019, and have issued our report thereon dated August 26, 2019.

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 Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in those reports and schedule, which are dated August 26, 2019, 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. There were no prior audit findings or recommendations.

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires that the name or official title of the entity and the school code assigned by the Florida Department of Education be disclosed in this management letter. The official title and the school code assigned by the Florida Department of Education of the entity are Babcock Neighborhood School, 080503.

Financial Condition and Management

Sections 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require us to apply appropriate procedures and communicate whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the School 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 School. 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 review of financial information provided by same. Section 10.854(1)(e)3., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the School 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 School maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Additional 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 District School Board of Charlotte County, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

 King & Walker, CPAs

August 26, 2019
Tampa, Florida

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American Institute of CPAs
Government Audit Quality Center

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office (813) 892-4274 fax (813) 932-1913
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August 26, 2019

Babcock Neighborhood School
42891 Lake Babcock Drive
Punta Gorda, FL 33987

As a part of our audit of Babcock Neighborhood School's financial statements for the fiscal year ended June 30, 2019, we respectfully request your assistance in obtaining certain information from the School's legal counsel.

Please forward the accompanying letter to the School's legal counsel and authorize him to respond directly to us. The information requested in the letter is essential for our current audit. We suggest that you request your legal counsel to provide you with a copy of his response. In reviewing that response, please advise us of any additional threatened litigation, asserted or unasserted claims, or assessments of which you have knowledge and which, in your opinion, are relevant to the fair presentation of the Foundation's basic financial statements. Also, if any matters involving litigation, claims, or assessments have been referred to legal counsel other than the individual named above, please advise us of the legal counsel's name and address.

We request that the response letter be dated August 26, 2019. Your cooperation in this audit procedure will be greatly appreciated.

Regards,

King & Walker, CPAs

[Letterhead of Charter School]

August 26, 2019

Our auditors, King & Walker, CPAs, are conducting an audit of our financial statements as of June 30, 2019 and for the period then ended. Please furnish to them the information requested below involving matters with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the Babcock Neighborhood School in the form of legal consultation or representation.

Pending or Threatened Litigation, Claims, and Assessments (excluding unasserted claims and assessments)

Please prepare a description of all material litigation, claims, and assessments (excluding unasserted claims and assessments). Materiality for purposes of this letter includes items involving amounts exceeding \$10,000 individually or in the aggregate. The description of each case should include:

- 1) the nature of the litigation;
- 2) the progress of the case to date;
- 3) how management of Babcock Neighborhood School is responding or intends to respond to the litigation (e.g., to contest the case vigorously or to seek an out-of-court settlement); and
- 4) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

Also, please identify any pending or threatened litigation, claims, and assessments with respect to which you have been engaged but as to which you have not yet devoted substantive attention.

Unasserted Claims and Assessments

We understand that whenever, in the course of performing legal services for us with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of Statement of Financial Accounting Standards No. 5 (excerpts of which can be found in the ABA's *Auditor's Letter Handbook*). Please specifically confirm to our auditors that our understanding is correct.

We have represented to our auditors that there are no unasserted possible claims or assessments that you have advised us are probable of assertion and must be disclosed in accordance with *Statement of Financial Accounting Standards No. 5*.

Response

Your response should include matters that existed as of June 30, 2019 and during the period from that date to the effective date of your response. Please specify the effective date of your response if it is other than the date of reply.

Please specifically identify the nature of, and reasons for, any limitations on your response.

Our auditors expect to have the audit completed on August 26, 2019, and would appreciate receiving your reply by that date.

Very truly yours,

[Charter School's Letterhead]

August 26, 2019

King & Walker, CPAs
2803 W. Busch Blvd Ste 106
Tampa, FL 33618

This representation letter is provided in connection with your audit of the financial statements of Babock Neighborhood School, ("School") which comprise the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information as of June 30, 2019, and the respective changes in financial position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of August 26, 2019, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter for the 2019 fiscal year, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the required supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the School is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, including all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the School from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of School or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 1) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 1) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 2) We have no knowledge of any fraud or suspected fraud that affects the School and involves—
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- 3) We have no knowledge of any allegations of fraud or suspected fraud affecting the School's financial statements communicated by employees, former employees, regulators, or others.
- 4) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 5) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 6) We have disclosed to you the identity of the School's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

- 7) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 8) We have a process to track the status of audit findings and recommendations, if applicable and noted in prior audits.
- 9) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 10) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report, if applicable.
- 11) The School has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 12) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

- 13) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 14) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 15) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 16) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 17) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 18) The School has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 19) The School has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 20) The financial statements include all component units, appropriately present majority equity interests in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 21) The financial statements properly classify all funds and activities in accordance with GASBS No. 34, as amended, and GASBS No. 84.
- 22) All funds that meet the quantitative criteria in and for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 23) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 24) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 25) Provisions for uncollectible receivables have been properly identified and recorded.
- 26) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 27) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 28) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 29) Special and extraordinary items are appropriately classified and reported, if applicable.
- 30) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.

- 31) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
- 32) We have appropriately disclosed the School's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 33) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 34) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 35) With respect to management discussion and analysis and budgetary comparison schedule:
 - a) We acknowledge our responsibility for presenting the management discussion and analysis and budgetary comparison schedule in accordance with accounting principles generally accepted in the United States of America, and we believe the management discussion and analysis and budgetary comparison schedule, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the management discussion and analysis and budgetary comparison schedule have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the management discussion and analysis and budgetary comparison schedule is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

Sincerely,

Management Signature:

Shannon Treece, Principal

Print Name

Shannon Treece

Governance Signature:

MU2, Board Chair

Print Name

Richard Lewis
