

**LAKE WALES CHARTER SCHOOLS, INC.  
HILLCREST ELEMENTARY SCHOOL  
A CHARTER SCHOOL AND COMPONENT UNIT  
OF THE DISTRICT SCHOOL BOARD OF  
POLK COUNTY, FLORIDA**

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

**JUNE 30, 2020**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Hillcrest Elementary School (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the School's financial statements, which follow this section.

Lake Wales Charter Schools, Inc. (the "Company") operates a system of seven public charter schools in the Lake Wales, Florida area, and the School is a part of that system. In addition, a central administrative office provides certain management, administrative, food and transportation services to the School.

### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2019-20 fiscal year are as follows:

- The School's net position decreased compared to the prior fiscal year.
- For the fiscal year ended June 30, 2020, the School's expenses exceeded revenues by \$184,423. This represents a decline from the prior year when expenses exceeded revenues by \$97,853.
- Overall, revenues decreased by approximately \$92,000, which represents a 2% decrease from the prior year.
- Overall, expenses decreased by approximately \$6,000, which represents a less than 1% decrease from the prior year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.
  - The *governmental funds* financial statements tell how general school services were financed in the short term, as well as what remains for future spending.
  - The *fiduciary fund* financial statement provides information about the financial relationships in which the School acts solely as an agent for the benefit of others.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the 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*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850.

The following table summarizes the major features of the School's financial statements, including the portion of the School they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

	<b>Government-wide Statements</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Fiduciary Fund</b>
Scope	Entire School (except the fiduciary fund)	The activities of the School that are not proprietary or fiduciary	Instances in which the School administers resources on behalf of someone else
Required financial statements	Statement of net position Statement of activities	Balance sheet – governmental funds Statement of revenues, expenditures and changes in fund balances – governmental funds	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	Only assets/deferred outflows of resources expected to be used up and liabilities/deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations

## Government-wide Financial Statements

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School's assets, deferred outflows of resources, liabilities and deferred inflows of resources, but excludes fiduciary funds. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the School's net position and how it has changed. Net position – the difference between the School's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the School's financial condition. Over time, increases or decreases in the School's net position are an indicator of whether its financial condition is improving or deteriorating, respectively. To assess the overall health of the School, one needs to consider additional non-financial factors such as changes in the School's student base, the quality of the education provided and the safety of the School.

The government-wide financial statements of the School are generally divided into three categories:

- Governmental Activities – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- Business-type Activities – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- Component Units – there currently are no component units included within the reporting entity of the School.

## Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is a self-balancing set of accounts which the School uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law, and the School may establish other funds to control and manage money for particular purposes, such as for federal grants.

The School currently has two types of funds:

- Governmental Funds – most of the School's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the differences between them.

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

## FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

### Net Position

The School's combined net position as of June 30, 2020 and 2019 is summarized as follows – see table below.

	<b>Governmental Activities</b>		<b>Increase (Decrease)</b>
	<b>2020</b>	<b>2019</b>	
Current and other assets	\$ 2,298,120	\$ 2,227,439	3%
Capital assets, net	172,037	94,988	81%
Deferred outflows of resources	<u>1,007,737</u>	<u>1,166,986</u>	<u>-14%</u>
Total assets and deferred outflows	<u>3,477,894</u>	<u>3,489,413</u>	<u>0%</u>
Long-term liabilities	3,038,568	2,890,798	5%
Deferred inflows of resources	<u>398,099</u>	<u>372,965</u>	<u>7%</u>
Total liabilities and deferred inflows	<u>3,436,667</u>	<u>3,263,763</u>	<u>5%</u>
Net position:			
Net investment in capital assets	172,037	94,988	81%
Unrestricted	<u>(130,810)</u>	<u>130,662</u>	<u>-200%</u>
Total net position	<u>\$ 41,227</u>	<u>\$ 225,650</u>	<u>-82%</u>

The School ended its fiscal year with a net position of \$41,227, with \$172,037 as the net investment in capital assets and (\$130,810) in unrestricted funds representing the accumulated results of prior years' operations. The unrestricted net position represents the amount of discretionary resources available to fund the School's general operations, which includes the implementation of GASB 68 in fiscal 2015. The Company has the cash flow available to meet all current obligations.

Current and other assets totaled \$2,298,120, most of which represents amounts due from the central administrative office. Since the Company maintains cash deposits on a pooled basis for all of its charter schools, the amount due from the central administrative office represents amounts advanced by the School to the Company for operating costs and represents the School's share of the pooled cash balance. Additional amounts were advanced during fiscal period 2019-20 as a result of the current year operating surplus at the fund level.

Net capital assets increased due to capital asset additions exceeding depreciation. Deferred outflows of resources and deferred inflows of resources relate to the School's participation in the state's pension plans. The long-term liabilities increase is primarily attributable to the increase in the School's proportionate share of the state's net pension obligation, as well as an increase in compensated absences payable. See Note 6 for additional pension plan information.

### Change in Net Position

The School's total revenues decreased by 2% to \$5,321,921, and the total cost of all programs and services decreased by less than 1% to \$5,506,344 – see table below.

	<b>Governmental Activities</b>		<b>Increase</b>
	<b>2020</b>	<b>2019</b>	<b>(Decrease)</b>
<b>Revenues:</b>			
Federal sources	\$ 326,061	\$ 383,242	-15%
State and local sources	4,882,880	4,861,992	0%
Contributions and other revenue	112,980	168,769	-33%
<b>Total revenues</b>	<b>5,321,921</b>	<b>5,414,003</b>	<b>-2%</b>
<b>Expenses:</b>			
Instruction	3,947,243	3,916,988	1%
Student support services	59,074	52,961	12%
Instructional media	113,359	117,086	-3%
Instruction and curriculum development	195,305	281,705	-31%
Instructional staff training	97,874	56,656	73%
Instruction-related technology	56,466	24,344	132%
Board	10,500	10,500	0%
General administration	22,678	24,804	-9%
School administration	530,240	509,064	4%
Facilities acquisition and construction	2,731	3,759	-27%
Pupil transportation	137,883	143,237	-4%
Operation of plant	316,179	335,192	-6%
Maintenance of plant	-	13,761	-100%
Community services	16,812	21,799	-23%
<b>Total expenses</b>	<b>5,506,344</b>	<b>5,511,856</b>	<b>0%</b>
<b>Change in net position</b>	<b>\$ (184,423)</b>	<b>\$ (97,853)</b>	<b>-88%</b>

The School operates primarily on the Florida Education Finance Program (FEFP) funding, state categorical educational funding, and local property taxes (92% of the School's total governmental revenues) to fund governmental activities. The School received approximately 6% of its total revenues in federal Title I and IDEA entitlement revenue to supplement the School's 2019-20 operations. A decrease in the Title I allocation accounts for the majority of the decrease in revenues from federal sources. The remaining portion of the School's revenue (2%) is the result of contributions and program revenue, which decreased due to a decrease in after-school program participation.

Instruction and instruction-related activities represent 81% of the School's expenses, which increased less than 1% during fiscal year 2019-20, a result of increased expenditures for educational services to students. Audit fees are reported in board expenses. The general administration expenses reflect the administration fee paid to the School Board based on FEFP revenue. The increase in school administration expenses is the result of increased personnel cost along with spending on COVID-19 related activities. The School utilized the Company transportation system in fiscal year 2019-20, and the expenditures reflect the cost the Company incurred to provide transportation service to the School. The decrease in transportation expenses is the result of decreased utilization of the service. Operation of plant expenses decreased due to a decrease in contracted services and repairs and maintenance expenses. Maintenance of plant expenses decreased due to a decrease in contracted services. Community services expenses include costs associated with the School's after-school program, which decreased due to less participation.

## **FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

As the School completed the year, its governmental funds reported a combined fund balance of \$2,298,120, which is an increase from the prior year. Both revenues and expenditures decreased overall for the same reasons described above.

### **General and Special Revenue Fund Budgetary Highlights**

Over the course of the fiscal year, the School amended its budget to address changes in revenues and expenditures. The general fund budget amendments were performed primarily to reflect revised student enrollment and to adjust planned expenditures based on actual resource needs. The special revenue fund budget amendments were performed to adjust the budget allocations to reflect the final approved federal awards from the state.

For the year ended June 30, 2020, actual general fund revenues were approximately \$190,000 below the budgeted amounts, which represents an approximate 4% budget variance. This variance is primarily due to lower cash receipts from the pre-kindergarten and after-school programs and private foundation donations than expected. Actual general fund expenditures were approximately \$256,000 below the budgeted amounts, which represents a budget variance of approximately 5%. This variance is related to cost savings after the school facility closed and shifted to virtual learning in the spring in response to COVID-19.

For the year ended June 30, 2020, actual special revenue fund revenues and expenditures were approximately \$20,000 above the budgeted amounts. Revenues under the federal grants are only recognized to the extent that eligible expenditures have been incurred.

## **CAPITAL ASSET ADMINISTRATION**

At the end of fiscal 2020, the School had invested \$647,646 in capital assets, consisting primarily of improvements, computers and other electronic equipment.

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

- Computer equipment - \$58,492
- Promethean boards - \$43,997



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

- Computer equipment - \$186,253
- Promethean boards - \$44,511

The School's fiscal year 2020-21 capital budget does not include significant spending related to capital projects. More detailed information about the School's capital assets is presented in Note 3 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The following economic indicators were taken into account when adopting the general fund budget for fiscal year 2020-21:

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

Amounts available for appropriation in the general fund are \$5,375,258, an approximate 8% increase from the actual 2020 amount of \$4,995,860. A predominate factor affecting the budget is the School's funded student membership. The funded membership for the fiscal year is 50 percent of the October 2020 and February 2021 student counts. The fiscal year 2020-21 budget is based on the same student count as the official student membership count funded in 2019-20. During the year, aggregate revenues are expected to increase as the student membership increases beyond the conservative budget; however, flat revenue projections in state per pupil funding will account for little movement in the School's allocation per pupil in 2020-21.

Budgeted general fund expenditures are expected to increase to \$5,470,307, or 11%, from the fiscal 2020 actual figure of \$4,925,179. The School is allocating resources to enhance academic achievement at all student-learning levels and for anticipated student membership. The increased expenditure base includes salary increases, the rising cost of health care and increases in other fixed recurring costs for School operations.

If these estimates are realized, the School's general fund balance is expected to decrease by the close of fiscal 2021.

## **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 130 East Central Avenue, Lake Wales, Florida 33853.

## **INDEPENDENT AUDITOR’S REPORT ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

To the Board of Trustees of Lake Wales Charter Schools, Inc. –  
Hillcrest Elementary School, a Charter School and Component Unit  
of the District School Board of Polk 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 Lake Wales Charter Schools, Inc. – Hillcrest Elementary School (the “School”), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements as listed in the table of contents.

#### **Management’s Responsibility for the Financial Statements**

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

#### **Auditor’s Responsibility**

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

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

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

To the Board of Trustees of Lake Wales Charter Schools, Inc. –  
Hillcrest Elementary School, a Charter School and Component Unit  
of the District School Board of Polk County, Florida

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## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lake Wales Charter Schools, Inc. – Hillcrest Elementary School as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 – 7, the budgetary comparison information on pages 34 – 35 and the pension information on pages 36 – 37 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 30, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Winter Park, Florida  
September 30, 2020

1560 Orange Avenue, Suite 600, Winter Park, Florida 32789 | 407.998.9000 | Fax 407.998.9010

**LAKE WALES CHARTER SCHOOLS, INC.  
HILLCREST ELEMENTARY SCHOOL  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**STATEMENT OF NET POSITION**

**JUNE 30, 2020**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Accounts receivable	\$ 55,231
Due from central administrative office	2,242,889
Capital assets, net	172,037
Total assets	2,470,157
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related deferred outflows of resources	1,007,737
Total assets and deferred outflows of resources	\$ 3,477,894
<b>LIABILITIES</b>	
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences payable	\$ 175,113
Portion due or payable after one year:	
Net pension liability	2,863,455
Total liabilities	3,038,568
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related deferred inflows of resources	398,099
<b>NET POSITION</b>	
Net investment in capital assets	172,037
Unrestricted	(130,810)
Total net position	41,227
Total liabilities, deferred inflows of resources and net position	\$ 3,477,894

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

**LAKE WALES CHARTER SCHOOLS, INC.  
HILLCREST ELEMENTARY SCHOOL  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
Governmental activities:						
Instruction	\$ 3,947,243	\$ 68,537	\$ 93,519	\$ -	\$ (3,785,187)	\$ (3,785,187)
Student support services	59,074	-	2,237	-	(56,837)	(56,837)
Instructional media	113,359	-	-	-	(113,359)	(113,359)
Instruction and curriculum development	195,305	-	193,583	-	(1,722)	(1,722)
Instructional staff training	97,874	-	36,722	-	(61,152)	(61,152)
Instruction-related technology	56,466	-	-	-	(56,466)	(56,466)
Board	10,500	-	-	-	(10,500)	(10,500)
General administration	22,678	-	-	-	(22,678)	(22,678)
School administration	530,240	-	-	-	(530,240)	(530,240)
Facilities acquisition and construction	2,731	-	-	-	(2,731)	(2,731)
Pupil transportation	137,883	-	-	-	(137,883)	(137,883)
Operation of plant	316,179	-	-	-	(316,179)	(316,179)
Community services	16,812	42,747	-	-	25,935	25,935
Total primary government	<u>\$ 5,506,344</u>	<u>\$ 111,284</u>	<u>\$ 326,061</u>	<u>\$ -</u>	<u>(5,068,999)</u>	<u>(5,068,999)</u>
General revenues:						
State and local sources					4,882,880	4,882,880
Contributions and other revenue					1,696	1,696
Total general revenues					<u>4,884,576</u>	<u>4,884,576</u>
Change in net position					(184,423)	(184,423)
Net position at beginning of year					<u>225,650</u>	<u>225,650</u>
Net position at end of year					<u>\$ 41,227</u>	<u>\$ 41,227</u>

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

**LAKE WALES CHARTER SCHOOLS, INC.  
HILLCREST ELEMENTARY SCHOOL  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2020**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Accounts receivable	\$ 329	\$ 54,902	\$ 55,231
Due from central administrative office	2,297,791	-	2,297,791
Total assets	\$ 2,298,120	\$ 54,902	\$ 2,353,022
<b>LIABILITIES</b>			
Due to central administrative office	\$ -	\$ 54,902	\$ 54,902
Total liabilities	-	54,902	54,902
<b>FUND BALANCES</b>			
Unassigned	2,298,120	-	2,298,120
Total fund balances	2,298,120	-	2,298,120
Total liabilities and fund balances	\$ 2,298,120	\$ 54,902	\$ 2,353,022

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

**LAKE WALES CHARTER SCHOOLS, INC.  
HILLCREST ELEMENTARY SCHOOL  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

**JUNE 30, 2020**

<b>Total fund balances - total governmental funds</b>	<b>\$ 2,298,120</b>
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$647,646, and the accumulated depreciation is \$475,609.	172,037
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Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(175,113)
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The following pension related balances do not use current resources or are not due and payable in the current period and, therefore, are not reported in the governmental funds:

Pension related deferred outflows of resources	1,007,737
Net pension liability	(2,863,455)
Pension related deferred inflows of resources	(398,099)

<b>Total net position - governmental activities</b>	<b>\$ <u>41,227</u></b>
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The accompanying notes to financial statements are an integral part of this statement.

**LAKE WALES CHARTER SCHOOLS, INC.  
HILLCREST ELEMENTARY SCHOOL  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Federal sources	\$ -	\$ 326,061	\$ 326,061
State and local sources	4,882,880	-	4,882,880
Contributions and other revenue	112,980	-	112,980
Total revenues	<u>4,995,860</u>	<u>326,061</u>	<u>5,321,921</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	3,551,318	93,519	3,644,837
Student support services	56,837	2,237	59,074
Instructional media	112,882	-	112,882
Instruction and curriculum development	-	193,583	193,583
Instructional staff training	60,534	36,722	97,256
Instruction-related technology	53,803	-	53,803
Board	10,500	-	10,500
General administration	22,678	-	22,678
School administration	463,884	-	463,884
Pupil transportation	137,883	-	137,883
Operation of plant	307,889	-	307,889
Community services	16,812	-	16,812
Capital outlay	130,159	-	130,159
Total expenditures	<u>4,925,179</u>	<u>326,061</u>	<u>5,251,240</u>
Net changes in fund balances	70,681	-	70,681
Fund balances at beginning of year	<u>2,227,439</u>	-	<u>2,227,439</u>
Fund balances at end of year	<u><u>\$ 2,298,120</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,298,120</u></u>

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



**LAKE WALES CHARTER SCHOOLS, INC.  
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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2020**

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 70,681</b>
--	------------------

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$130,159) exceed depreciation expense (\$53,110) in the current period.	77,049
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Compensated absences included in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(41,902)
--	----------

Pension income or expense resulting from GASB 68 included in the statement of activities does not provide or require the use of current financial resources and, therefore, is not reported as a net change in fund balances in the governmental funds.	<u>(290,251)</u>
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<b>Change in net position of governmental activities</b>	<b><u><u>\$ (184,423)</u></u></b>
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The accompanying notes to financial statements are an integral part of this statement.

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**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

**JUNE 30, 2020**

	<b>Agency Fund</b>
<b>ASSETS</b>	
Due from central administrative office	\$ 89,455
Total assets	\$ 89,455
<b>LIABILITIES</b>	
Due to student groups	\$ 89,455
Total liabilities	\$ 89,455

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

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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2020**

**1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Lake Wales Charter Schools, Inc. (the "Company") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes. Hillcrest Elementary School (the "School") operates as part of the Company with six other charter schools in the Lake Wales, Florida area. The governing body of the School is the not-for-profit corporation Board of Trustees, which is composed of no less than three and no more than nine members. Effective July 1, 2004, the School converted from a traditional public school to a public charter school. Effective July 1, 2011, the Company became its own local educational agency ("LEA").

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 Polk County, Florida (the "School Board"). The current charter is effective until June 30, 2028 and may be renewed by mutual written agreement between the School and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter. In this case, the School Board 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 School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the School Board. The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board ("GASB") accounting guidance; 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 of the School which should be reported with the School's basic financial statements are identified and described in the GASB *Codification of Governmental Accounting and Financial Reporting Standards*. 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.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Basis of Presentation**

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

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School's assets, deferred outflows of resources, liabilities and deferred inflows of resources, but excludes fiduciary funds. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide financial statements of the School are generally divided into three categories:

- Governmental Activities – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- Business-type Activities – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- Component Units – there currently are no component units included within the reporting entity of the School.

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The funds in the financial statements of this report are as follows:

Governmental Funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund.
- Special Revenue Fund – to account for the proceeds of specific revenue sources and federal grants that are restricted by law or administrative action to expenditure for specific purposes.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

For purposes of these statements, the general and special revenue funds constitute major funds. There are no other governmental funds.

Fiduciary Fund:

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

**Basis of Accounting**

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

The government-wide and fiduciary fund financial statements are presented using the accrual basis of accounting and an economic resources focus. Under the accrual basis of accounting, revenues and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within sixty days of the end of the fiscal year. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) interest on general long-term debt is recognized when due and (2) expenditures related to liabilities reported as general long-term debt are recognized when due.

**Budgetary Basis Accounting**

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

**Deposits and Investments**

During the year ended June 30, 2020, the Company maintained cash deposits on a pooled basis for all of its charter schools. Cash deposits are held by banks qualified as public depositories under Florida law.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

All deposits held by qualified public depositories are insured by federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool under Chapter 280, Florida Statutes. The Company's cash consists primarily of demand deposits with financial institutions.

**Accounts Receivable**

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

**Capital Assets and Depreciation**

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation, in the government-wide financial statements. Donated assets are recorded at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Improvements other than buildings	5
Furniture, fixtures and equipment	3 - 5
Computer software	3

Information relative to changes in capital assets is described in Note 3.

**Compensated Absences**

Compensated absences (i.e. paid absences for employee vacation leave and sick leave) are recorded as expenditures in the governmental funds when leave is used or when accrued as payable to employees entitled to cash payment in lieu of taking leave. In the government-wide financial statements, compensated absences are recorded as expenses when earned by the employees. The liability for compensated absences is classified as a long-term liability that is due within one year in the government-wide financial statements because the amount of vacation and sick time to be used after the following year cannot be reasonably estimated. Information relative to changes in long-term liabilities is described in Note 5.

**Long-term Liabilities**

Long-term obligations that will be financed by resources to be received in the future by the general fund are reported in the government-wide financial statements, not in the general fund. Information relative to changes in long-term liabilities is described in Note 5.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Fund Balance Spending Policy**

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

The School is required by the School Board to maintain an unassigned general fund balance equal to at least 3% of general fund revenues. The Company has an internal fund balance policy to maintain an unassigned general fund balance equal to not less than 10% of budgeted general fund revenues as of June 30<sup>th</sup> of each year for the Lake Wales Charter Schools system as a whole. In addition, the Company's internal fund balance policy requires that each charter school maintain an unassigned general fund balance equal to a minimum of 5% of budgeted general fund revenues - 3% to meet the School Board's requirement and 2% to provide for sufficient cash flow for fiscal stability. There are no minimum fund balance requirements for any of the School's other funds.

**Revenue Sources**

Revenues for current operations are received primarily from the School Board pursuant to the funding provisions included in the School's charter. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the Florida Department of Education ("FDOE") by the state legislature. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent students and related data to the School Board.

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the FDOE for funding through the FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. The School Board receives a 5% administrative fee from the Lake Wales Charter Schools system, which is reflected as a general administration expense/expenditure in the accompanying financial statements. This administrative fee is calculated on the FEFP revenue up to 500 students within the system.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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

**Income Taxes**

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

**Use of Estimates**

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources as of the date of the statement of net position and the balance sheet – governmental funds and affect revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

**Subsequent Events**

The School has evaluated subsequent events through September 30, 2020, the date these financial statements were available to be issued.

**Recently Issued Accounting Pronouncement**

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The new standard is effective for the fiscal year ending June 30, 2021. The cumulative effect of any changes adopted to conform to the provisions of this guidance would be reported as a restatement of beginning net position and fund balance. The School is currently evaluating the effect that implementation of the new standard will have on its financial statements.



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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**2 ACCOUNTS RECEIVABLE**

Accounts receivable in the accompanying financial statements include \$55,231 in funds receivable from federal and state agencies under various grants, which are detailed as follows:

Title I Grants to Local Educational Agencies	\$ 46,811
Special Education-Grants to States (IDEA, Part B)	8,091
Other	<u>329</u>
Total	<u><u>\$ 55,231</u></u>

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

**3 CHANGES IN CAPITAL ASSETS**

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Governmental activities:				
Improvements other than buildings	\$ 29,392	\$ -	\$ -	\$ 29,392
Furniture, fixtures and equipment	673,103	130,159	(237,174)	566,088
Computer software	<u>52,166</u>	<u>-</u>	<u>-</u>	<u>52,166</u>
Total capital assets at historical cost	<u>754,661</u>	<u>130,159</u>	<u>(237,174)</u>	<u>647,646</u>
Less accumulated depreciation for:				
Improvements other than buildings	(17,182)	(3,468)	-	(20,650)
Furniture, fixtures and equipment	(590,325)	(49,642)	237,174	(402,793)
Computer software	<u>(52,166)</u>	<u>-</u>	<u>-</u>	<u>(52,166)</u>
Total accumulated depreciation	<u>(659,673)</u>	<u>(53,110)</u>	<u>237,174</u>	<u>(475,609)</u>
Governmental activities capital assets, net	<u><u>\$ 94,988</u></u>	<u><u>\$ 77,049</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 172,037</u></u>

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 38,708
Instruction-related technology	2,663
School administration	718
Facilities acquisition and construction	2,731
Operation of plant	<u>8,290</u>
Total governmental activities depreciation expense	<u>\$ 53,110</u>

**4 COMMITMENTS AND CONTINGENT LIABILITIES**

**Grants**

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the 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 receivable as of June 30, 2020 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Legal Matters**

In the normal course of conducting its operations, the 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.

**Risk Management Program**

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not historically exceeded commercial coverage.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Contingency**

The Company obtained a loan from a financial institution in order to purchase property for the location of one of its middle schools. In addition to a mortgage on the property acquired, the furniture, fixtures and equipment of the School also serve as collateral for the loan.

**Uncertainty**

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

**5 LONG-TERM LIABILITIES**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 133,211	\$ 41,902	\$ -	\$ 175,113	\$ 175,113
Net pension liability	<u>2,757,587</u>	<u>105,868</u>	<u>-</u>	<u>2,863,455</u>	<u>-</u>
Governmental activities, long-term liabilities	<u>\$ 2,890,798</u>	<u>\$ 147,770</u>	<u>\$ -</u>	<u>\$ 3,038,568</u>	<u>\$ 175,113</u>

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**NOTES TO FINANCIAL STATEMENTS  
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**6 PENSION PLANS**

**Pension Plan Descriptions**

The Florida Department of Management Services, Division of Retirement (“Division”), is part of the primary government of the State of Florida and is responsible for administering the Florida Retirement System Pension Plan and Other State-Administered Systems (“System”). The School participates in two defined benefit plans administered by the Division. The Division issued a publicly-available, audited comprehensive annual financial report (“CAFR”) on behalf of the System that includes financial statements, notes and required supplementary information for each of the pension plans. Detailed information about the plans is provided in the CAFR which is available online or by contacting the Division.

The Florida Retirement System (“FRS”) Pension Plan is a cost-sharing, multiple-employer qualified defined benefit pension plan with a Deferred Retirement Option Program (“DROP”) available for eligible employees. The FRS was established and is administered in accordance with Chapter 121, Florida Statutes. The Florida Legislature establishes and amends the contribution requirements and benefit terms of the FRS Pension Plan. Retirees receive a lifetime pension benefit with joint and survivor payment options. FRS membership is compulsory for employees filling regularly established positions in a state agency, county agency, state university, state community college, or district school board, unless restricted from FRS membership under sections 121.053 and 121.122, Florida Statutes, or allowed to participate in a non-integrated defined contribution plan in lieu of FRS membership. Participation by cities, municipalities, special districts, charter schools and metropolitan planning organizations is optional.

The Retiree Health Insurance Subsidy (“HIS”) Program is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with section 112.363, Florida Statutes. The Florida Legislature establishes and amends the contribution requirements and benefit terms of the HIS Program. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. For the fiscal year ended June 30, 2019, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which may include Medicare.

Employee contributions required pursuant to section 121.71(3), Florida Statutes, are accounted for by the FRS as employer-paid employee contributions and are treated as employer contributions under 26 U.S.C. s. 414(h)(2) allowing these contributions to be deducted on a pre-tax basis. Pension expense reported by the School is reduced by these amounts.

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

Contribution rates were as follows:

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

(A) Employer rates include 1.66% for the Retiree Health Insurance Subsidy and 0.06% for administration of the Florida Retirement System Investment Plan and provision of educational tools for both plans, and any applicable unfunded actuarial liability rates.

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

**Information About the Employer’s Proportionate Share of the Collective Net Pension Liability**

Assumptions and Other Inputs

The FRS Actuarial Assumption Conference is responsible for setting the assumptions used in the funding valuations of the defined benefit pension plan pursuant to section 216.136(10), Florida Statutes. The Division determines the assumptions in the valuations for GASB 67 reporting purposes. The FRS Pension Plan’s GASB 67 valuation is performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2019 for the period July 1, 2013, through June 30, 2018. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study for the FRS Pension Plan.

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The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth, including inflation, for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 6.90%. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.50% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for the FRS Pension Plan were based on the PUB-2010 base table, projected generationally with Scale MP-2018, and mortality assumptions for the HIS Program were based on the Generational RP-2000 with Projection Scale BB tables.

The following changes in actuarial assumptions occurred in 2019:

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

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

<b>School's Proportionate Share of FRS Net Pension Liability</b>			<b>School's Proportionate Share of HIS Net Pension Liability</b>		
<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
5.90%	6.90%	7.90%	2.50%	3.50%	4.50%
\$ 3,353,973	\$ 1,940,208	\$ 759,475	\$ 1,053,933	\$ 923,247	\$ 814,399

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**NOTES TO FINANCIAL STATEMENTS  
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The Pension Plans' Fiduciary Net Positions

Detailed information about the pension plans' fiduciary net positions are available in the System's separately issued CAFR. The components of the collective net pension liability of the participating employers for each defined benefit plan for the measurement date of June 30, 2019, are shown below (in thousands):

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

The total pension liability for the FRS Pension Plan was determined by the plan's actuary and reported in the plan's GASB 67 valuation as of June 30, 2019. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. Update procedures were not used.

The HIS actuarial valuation was prepared as of July 1, 2018, and update procedures were used to determine liabilities as of June 30, 2019. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan.

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

As of June 30, 2020, the School reported a liability of \$2,863,455 for its proportionate share of the net pension liabilities. The School's proportionate share was calculated using accrued retirement contributions related to the reporting periods included in the System's fiscal years ended June 30, 2013 through June 30, 2019 for employers that were members of the FRS and HIS during those fiscal years. The proportion calculated based on contributions for each of the fiscal years was applied to the net pension liability and other pension amounts applicable to that fiscal year to determine the School's proportionate share of the liability, deferred outflows of resources, deferred inflows of resources and associated pension expense.

**LAKE WALES CHARTER SCHOOLS, INC.  
HILLCREST ELEMENTARY SCHOOL  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

The School's proportions are as follows:

	<b>FRS</b>	<b>HIS</b>
June 30, 2019	0.0056%	0.0083%
June 30, 2018	0.0061%	0.0086%
Change	-0.0005%	-0.0003%

In accordance with GASB 68, paragraphs 54 and 71, changes in the School's proportionate share of the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current reporting period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Changes of assumptions or other inputs – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Changes in proportion and differences between contributions and proportionate share of contributions – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Differences between expected and actual earnings on pension plan investments – amortized over five years.

Employer contributions to the pension plans from the School are not included in collective pension expense; however, employee contributions are used to reduce pension expense. The average expected remaining service life of all employees provided with pensions through the pension plans as of June 30, 2019, was 6.4 years for FRS and 7.2 years for HIS.



**LAKE WALES CHARTER SCHOOLS, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

For the year ended June 30, 2020, the School recognized pension expense of \$539,410. As of June 30, 2020, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 126,293	\$ 2,334
Changes of assumptions	605,232	75,459
Net difference between projected and actual earnings on pension plan investments	596	107,342
Changes in proportion and differences between School contributions and proportionate share of contributions	40,281	212,964
School contributions subsequent to the measurement date	<u>235,335</u>	<u>-</u>
Total	<u>\$ 1,007,737</u>	<u>\$ 398,099</u>

Deferred outflows of resources related to the School's contributions paid subsequent to the measurement date and prior to the School's fiscal year end will be recognized as a reduction of the net pension liability in the subsequent reporting period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

<u>Reporting Period Ended June 30:</u>	<u>Amount</u>
2021	\$ 135,342
2022	39,481
2023	99,431
2024	76,760
2025	19,418
Thereafter	3,871

**LAKE WALES CHARTER SCHOOLS, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**7 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES**

The following is a schedule of state and local revenue sources and amounts:

District School Board of Polk County, Florida:	
Florida Education Finance Program	\$ 3,088,763
Class size reduction	860,167
Discretionary millage funds	191,158
Discretionary tax equalization funds	189,211
Supplemental academic instruction	176,213
ESE guaranteed allocation	126,471
Transportation	60,336
Instructional materials	55,038
Funds compression allocation	37,261
Safe schools	36,602
Reading allocation	28,748
Mental health assistance allocation	17,079
Teacher lead pay	13,104
Digital classroom allocation	2,058
Discretionary lottery funds	<u>671</u>
Total	<u>\$ 4,882,880</u>

The administration fee paid to the School Board during the year ended June 30, 2020 totaled approximately \$23,000 which is reflected as a general administration expense/expenditure in the accompanying financial statements.

**8 RELATED PARTY TRANSACTIONS**

As previously noted, the Company maintained cash deposits on a pooled basis for all of its charter schools during the fiscal year ended June 30, 2020. The amount due from the central administrative office in the accompanying financial statements represents the School's share of the pooled cash balance. The net balance of \$2,242,889 primarily includes amounts advanced by the School to the Company for operating costs. The balance is also net of payroll liabilities (taxes, insurance, retirement, etc.) to be paid by the Company on behalf of the School. Due to centralized cash management and the timing of the payroll accrual near year-end, the amount due from the central administrative office represents a significant portion of total assets as of June 30, 2020.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

In addition, the Company provides certain management and administrative services to the School. Expenses for these services are generally allocated to each charter school operated by the Company based on the relative number of students, but can be increased or decreased at the discretion of the Company. For the year ended June 30, 2020, the School's share of these expenses totaled \$185,396, which is reflected as a school administration expense/expenditure in the accompanying financial statements.

The Company also provides transportation services for the School in exchange for the transportation revenue generated by the School based on its full-time equivalent student count. Amounts paid to the Company for transportation services during fiscal 2020 totaled \$137,883.

During fiscal 2020, the Company operated and managed all of its charter schools as one collective unit, although each charter school is considered a separate reporting entity. As one legal entity, the Company has the option to transfer funds between schools as it deems necessary. The following schedule reflects the unassigned general fund balance of each school as of June 30, 2020:

Dale R. Fair Babson Park Elementary School	\$ 1,166,371
Edward W. Bok Academy	346,431
Edward W. Bok Academy North	323,700
Hillcrest Elementary School	2,298,120
Janie Howard Wilson Elementary School	1,612,932
Lake Wales High School	1,266,105
Polk Avenue Elementary School	<u>1,115,861</u>
Total	<u>\$ 8,129,520</u>

**9 CAMPUS FACILITY**

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

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

**LAKE WALES CHARTER SCHOOLS, INC.  
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**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>Final Budget-</u>
			<u>Basis)</u>	<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
State and local sources	\$ 4,899,592	\$ 4,889,125	\$ 4,882,880	\$ (6,245)
Contributions and other revenue	296,300	296,301	112,980	(183,321)
Total revenues	<u>5,195,892</u>	<u>5,185,426</u>	<u>4,995,860</u>	<u>(189,566)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	3,565,309	3,548,262	3,551,318	(3,056)
Student support services	38,554	44,411	56,837	(12,426)
Instructional media	121,668	110,753	112,882	(2,129)
Instruction and curriculum development	4,864	-	-	-
Instructional staff training	57,635	63,542	60,534	3,008
Instruction-related technology	72,656	47,239	53,803	(6,564)
Board	10,500	10,500	10,500	-
General administration	26,130	26,520	22,678	3,842
School administration	577,479	572,206	463,884	108,322
Pupil transportation	156,172	145,901	137,883	8,018
Operation of plant	343,472	347,872	307,889	39,983
Community services	128,000	114,000	16,812	97,188
Capital outlay	89,000	149,767	130,159	19,608
Total expenditures	<u>5,191,439</u>	<u>5,180,973</u>	<u>4,925,179</u>	<u>255,794</u>
Net changes in fund balance	4,453	4,453	70,681	66,228
Fund balance at beginning of year	<u>2,227,439</u>	<u>2,227,439</u>	<u>2,227,439</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ 2,231,892</u></u>	<u><u>\$ 2,231,892</u></u>	<u><u>\$ 2,298,120</u></u>	<u><u>\$ 66,228</u></u>

See independent auditor's report.

**LAKE WALES CHARTER SCHOOLS, INC.  
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**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal sources	\$ 290,900	\$ 305,926	\$ 326,061	\$ 20,135
Total revenues	<u>290,900</u>	<u>305,926</u>	<u>326,061</u>	<u>20,135</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	290,900	305,926	93,519	212,407
Student support services	-	-	2,237	(2,237)
Instruction and curriculum development	-	-	193,583	(193,583)
Instructional staff training	-	-	36,722	(36,722)
Total expenditures	<u>290,900</u>	<u>305,926</u>	<u>326,061</u>	<u>(20,135)</u>
Net changes in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report.

**LAKE WALES CHARTER SCHOOLS, INC.  
HILLCREST ELEMENTARY SCHOOL  
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THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
LAST 10 FISCAL YEARS ENDING JUNE 30**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Florida Retirement System (FRS) Pension Plan										
School's proportion of the net pension liability (asset)	0.0056%	0.0061%	0.0063%	0.0061%	0.0068%	0.0069%	Information for the periods prior to the implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.			
School's proportionate share of the net pension liability (asset)	\$ 1,940,208	\$ 1,848,646	\$ 1,860,546	\$ 1,545,965	\$ 878,664	\$ 419,295				
School's covered-employee payroll	\$ 2,759,607	\$ 2,839,795	\$ 2,890,938	\$ 2,725,301	\$ 2,614,729	\$ 2,661,127				
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	70%	65%	64%	57%	34%	16%				
Plan fiduciary net position as a percentage of the total pension liability (asset)	83%	84%	84%	85%	92%	96%				
Retiree Health Insurance Subsidy (HIS) Program										
School's proportion of the net pension liability (asset)	0.0083%	0.0086%	0.0090%	0.0088%	0.0090%	0.0090%	Information for the periods prior to the implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.			
School's proportionate share of the net pension liability (asset)	\$ 923,247	\$ 908,941	\$ 967,500	\$ 1,031,360	\$ 918,946	\$ 837,885				
School's covered-employee payroll	\$ 2,759,607	\$ 2,839,795	\$ 2,890,938	\$ 2,725,301	\$ 2,614,729	\$ 2,661,127				
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33%	32%	33%	38%	35%	31%				
Plan fiduciary net position as a percentage of the total pension liability (asset)	3%	2%	2%	1%	1%	1%				

See independent auditor's report.

**LAKE WALES CHARTER SCHOOLS, INC.  
HILLCREST ELEMENTARY SCHOOL  
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THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS - PENSION PLANS  
LAST 10 FISCAL YEARS ENDING JUNE 30**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Florida Retirement System (FRS) Pension Plan										
Contractually required contribution	\$ 187,178	\$ 174,689	\$ 174,914	\$ 163,745	\$ 149,310	\$ 165,856	\$ 150,526	Information for the periods prior to the implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.		
Contributions in relation to the contractually required contribution	187,178	174,689	174,914	163,745	149,310	165,856	150,526			
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			
School's covered-employee payroll	\$ 2,900,847	\$ 2,759,607	\$ 2,839,795	\$ 2,890,938	\$ 2,725,301	\$ 2,614,729	\$ 2,661,127			
Contributions as a percentage of covered-employee payroll	6%	6%	6%	6%	5%	6%	6%			
Retiree Health Insurance Subsidy (HIS) Program										
Contractually required contribution	\$ 48,157	\$ 45,819	\$ 46,572	\$ 47,887	\$ 45,359	\$ 34,444	\$ 30,698	Information for the periods prior to the implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.		
Contributions in relation to the contractually required contribution	48,157	45,819	46,572	47,887	45,359	34,444	30,698			
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			
School's covered-employee payroll	\$ 2,900,847	\$ 2,759,607	\$ 2,839,795	\$ 2,890,938	\$ 2,725,301	\$ 2,614,729	\$ 2,661,127			
Contributions as a percentage of covered-employee payroll	2%	2%	2%	2%	2%	1%	1%			

See independent auditor's report.

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of Lake Wales Charter Schools, Inc. –  
Hillcrest Elementary School, a Charter School and Component Unit  
of the District School Board of Polk 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 Lake Wales Charter Schools, Inc. – Hillcrest Elementary School (the “School”), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2020, 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 30, 2020.

**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”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



To the Board of Trustees of Lake Wales Charter Schools, Inc. –  
Hillcrest Elementary School, a Charter School and Component Unit  
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## **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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Winter Park, Florida  
September 30, 2020

**ADDITIONAL INFORMATION REQUIRED BY  
RULES OF THE AUDITOR GENERAL, CHAPTER 10.850**

To the Board of Trustees of Lake Wales Charter Schools, Inc. –  
Hillcrest Elementary School, a Charter School and Component Unit  
of the District School Board of Polk County, Florida

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lake Wales Charter Schools, Inc. – Hillcrest Elementary School (the “School”), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2020, and have issued our report thereon dated September 30, 2020.

## **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 Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated September 30, 2020, 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 findings and recommendations in the preceding annual financial audit report.

## **OFFICIAL TITLE**

Section 10.854(1)(e)5., Rules of the Auditor General, requires 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 of the entity is Lake Wales Charter Schools, Inc. – Hillcrest Elementary School, and the school code assigned by the Florida Department of Education is 1361.

## **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.

To the Board of Trustees of Lake Wales Charter Schools, Inc. –  
Hillcrest Elementary School, a Charter School and Component Unit  
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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 the review of financial information provided by same. The financial condition assessment was done as of the fiscal year-end.

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 website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its website the information specified in Section 1002.33(9)(p), Florida Statutes.

### **ADDITIONAL MATTERS**

Section 10.854(1)(e)4., Rules of the Auditor General, requires us to communicate 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 warrants the attention of those charged with governance. In connection with our audit, we did not note 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 Trustees, applicable management and the District School Board of Polk County, Florida and is not intended to be, and should not be, used by anyone other than these specified parties.



Winter Park, Florida  
September 30, 2020