

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
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, 2017**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of The Schools of McKeel Academy, Inc. (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the School's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The School's total net position increased as compared to the prior year.
- For the fiscal year ended June 30, 2017, the School's revenues exceeded expenses by \$562,362, which is a decrease from the prior year when revenues exceeded expenses by \$793,609.
- Overall, revenues increased by approximately \$1,003,000, which was a 4% increase from the prior year.
- Overall, expenses increased by approximately \$1,234,000, which was a 6% increase from the prior year.
- Total assets and deferred outflows of resources were \$23,669,450, and total liabilities and deferred inflows of resources were \$23,215,876, resulting in a net position of \$453,574 as of June 30, 2017.

### 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 following information required by the Uniform Guidance: schedule of expenditures of federal awards and accompanying note, independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance and the schedule of findings and questioned costs. In addition, it includes the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*., as well as the management letter required by the Rules of the Auditor General, Chapter 10.850.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(continued)**

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

### **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 and deferred outflows of resources and its liabilities and deferred inflows of resources, but excludes fiduciary funds. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the School's net position and how it has changed. Net position – the difference between the School's assets and deferred outflows of resources and its 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 health 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 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(continued)

- **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 at June 30, 2017 and 2016 is summarized as follows – see table below.

	<b>Governmental Activities</b>		<b>Increase (Decrease)</b>
	<b>2017</b>	<b>(as restated) 2016</b>	
Current and other assets	\$5,004,051	\$ 4,356,135	15%
Capital assets, net	10,417,129	10,446,157	0%
Deferred outflows of resources	8,248,270	4,951,669	67%
Total assets and deferred outflows	<u>23,669,450</u>	<u>19,753,961</u>	<u>20%</u>
Current and other liabilities	1,960,259	1,855,606	6%
Long-term liabilities	17,192,349	14,452,290	19%
Deferred inflows of resources	4,063,268	3,554,853	14%
Total liabilities and deferred inflows	<u>23,215,876</u>	<u>19,862,749</u>	<u>17%</u>
Net position:			
Net investment in capital assets	4,433,881	3,804,349	17%
Restricted	255,374	247,697	3%
Unrestricted	<u>(4,235,681)</u>	<u>(4,160,834)</u>	<u>-2%</u>
Total net position	<u>\$ 453,574</u>	<u>\$ (108,788)</u>	<u>517%</u>

Deferred outflows of resources, long-term liabilities and deferred inflows of resources changed due to the remeasurement of the pension liability. Current liabilities increased due to the timing of payments at year-end. Net investment in capital assets is the result of capital assets, net reduced by related borrowings. Construction in progress increased just over \$400,000 due to a remodel of an additional five classroom area of our high school. The current and other assets and the change in total net position was due to the current year operating income and the activity noted above.

Certain reclassifications were made in the 2016 amounts to conform to their classifications in fiscal year 2017.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(continued)

**Change in Net Position**

The School's total revenues increased by 4% to \$24,089,797, and the total cost of all programs and services increased by 6% to \$23,527,435 – see table below.

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2017</u>	<u>2016</u>	
<b>Revenues:</b>			
Federal sources passed through local school district	\$ 855,666	\$ 748,912	14%
State and local sources	21,070,877	20,198,238	4%
Contributions and other revenue	<u>2,163,254</u>	<u>2,139,886</u>	<u>1%</u>
Total revenues	<u>24,089,797</u>	<u>23,087,036</u>	<u>4%</u>
<b>Expenses:</b>			
Instruction	13,488,267	12,440,921	8%
Student support	631,596	470,633	34%
Instructional media	114,014	145,344	-22%
Instructional staff training	338,932	188,657	80%
Instruction-related technology	485,644	367,940	32%
Board	73,410	75,779	-3%
General administration	64,494	64,762	0%
School administration	1,691,354	1,814,113	-7%
Fiscal services	392,851	520,980	-25%
Food services	1,520,161	1,366,526	11%
Central services	-	3,354	-100%
Student transportation	1,259,435	1,157,693	9%
Operation of plant	2,789,220	2,854,474	-2%
Maintenance of plant	187,968	244,269	-23%
Community services	212,609	340,298	-38%
Interest	<u>277,480</u>	<u>237,684</u>	<u>17%</u>
Total expenses	<u>23,527,435</u>	<u>22,293,427</u>	<u>6%</u>
Change in net position	<u>\$ 562,362</u>	<u>\$ 793,609</u>	<u>-29%</u>

Revenue increased overall primarily due to increases in enrollment.

Instruction and student support increased due to increased staffing and to staff bonuses paid in the current year. Instructional staff training increased due to several added trainings and professional development opportunities for staff. Instruction-related technology increased due to staff bonuses paid in the current year, hiring of additional staff and an allocation of depreciation charges new in the current year. Fiscal services decreased due to a reduction in staff in the current year along with a decrease in allocated depreciation. Food services

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(continued)**

increased to accommodate the increase in enrollment and higher participation level in our food service program. Maintenance of plant decreased due to lower professional services expenditures and more remodel/renovations that were capital in nature in the current year. Community services decreased due to lower after school care costs in the current year.

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

As the School completed the year, its governmental funds reported a combined fund balance of \$3,043,792. Overall, revenues and expenditures increased for the same reasons described above.

**General Fund Budgetary Highlights**

For the year ended June 30, 2017, actual general fund revenues were approximately \$3,500 above the final budget, which represents a budget variance of less than 1%.

For the year ended June 30, 2017, actual general fund expenditures were approximately \$609,000 above the final budget, which represents a budget variance of 3%.

For the year ended June 30, 2017, actual other financing sources of approximately \$58,000 were not included in the final budget.

**Special Revenue Fund Budgetary Highlights**

For the year ended June 30, 2017, actual special revenue fund revenues and expenditures were not significantly different from the final budgeted amounts.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The School's investment in capital assets at the end of fiscal 2017 amounts to \$10,417,129 (net of accumulated depreciation). See table below:

	<b>Governmental Activities</b>		<b>Increase (Decrease)</b>
	<b>2017</b>	<b>2016</b>	
Construction in progress	\$ 414,680	\$ 6,084	6716%
Land	588,178	588,178	0%
Land improvements	524,743	486,439	8%
Building and improvements	8,286,574	8,225,472	1%
Furniture, fixtures and equipment	3,143,958	3,082,222	2%
Vehicles	2,167,602	1,939,828	12%
Less: accumulated depreciation	(4,708,606)	(3,882,066)	-21%
<b>Total capital assets</b>	<b>\$ 10,417,129</b>	<b>\$ 10,446,157</b>	<b>0%</b>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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

- Facility expansion construction in progress – \$407,000
- Four buses - \$406,000

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

- Two buses - \$178,000

More detailed information about the School's capital assets is presented in Note 3 to the financial statements.

### **Long-term Debt**

As of June 30, 2016, the School had \$5,983,248 in long-term debt outstanding. There were no major additions and scheduled payments reduced the amount outstanding in the current year. More detailed information about the School's long-term liabilities is presented in Note 4 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 2018:

- Projected increase in student population
- Projected salary increases

Amounts available for appropriation in the general fund are approximately \$22,663,000, an increase of 4% over the final 2017 amount of \$21,851,349. FEFP revenue is expected to increase due to an increase in the number of students.

Budgeted expenditures are expected to be approximately \$22,443,000, an increase of 5% from the final 2017 amount of \$21,373,763. Expenditures are expected to increase overall due to an increase in the number of students the School serves. The School has added no major new programs to the fiscal 2018 budget.

If these estimates are realized, the School's budgetary general fund balance is expected to increase by the close of fiscal 2018.

### **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 303 E. Peachtree Street, Lakeland, Florida, 33801.

## **Independent Auditor's Report on Basic Financial Statements and Supplementary Information**

To the Board of Directors of The Schools of McKeel Academy, Inc., 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 The Schools of McKeel Academy, Inc. (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, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

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

#### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of The Schools of McKeel Academy, Inc. as of June 30, 2017, 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 36 – 37 and the pension information on pages 38 – 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017 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.

A handwritten signature in black ink that reads "BKM, P.A." in a cursive, stylized font.

Winter Park, Florida  
October 17, 2017

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**STATEMENT OF NET POSITION**

**JUNE 30, 2017**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,901,407
Certificates of deposit	576,058
Accounts receivable	158,912
Due from agency fund	108,002
Other assets	259,672
Capital assets:	
Construction in progress	414,680
Land	588,178
Land improvements	524,743
Building and improvements	8,286,574
Furniture, fixtures and equipment	3,143,958
Vehicles	2,167,602
Less accumulated depreciation	<u>(4,708,606)</u>
Total capital assets, net	<u>10,417,129</u>
Total assets	<u>15,421,180</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related deferred outflows of resources	<u>8,248,270</u>
Total assets and deferred outflows of resources	<u><u>\$ 23,669,450</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 1,946,679
Unearned revenue	13,580
Long-term liabilities:	
Due within one year	1,369,032
Due in more than one year	<u>15,823,317</u>
Total liabilities	<u>19,152,608</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related deferred inflows of resources	<u>4,063,268</u>
<b>NET POSITION</b>	
Net investment in capital assets	4,433,881
Restricted for:	
Food service	255,374
Unrestricted	<u>(4,235,681)</u>
Total net position	<u>453,574</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 23,669,450</u></u>

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

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>	
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Total</b>
Governmental activities:						
Instruction	\$ 13,488,267	\$ 643,124	\$ 154,737	\$ -	\$ (12,690,406)	\$ (12,690,406)
Student support	631,596	-	-	-	(631,596)	(631,596)
Instructional media	114,014	-	-	-	(114,014)	(114,014)
Instructional staff training	338,932	-	73,838	-	(265,094)	(265,094)
Instruction-related technology	485,644	-	-	-	(485,644)	(485,644)
Board	73,410	-	-	-	(73,410)	(73,410)
General administration	64,494	-	-	-	(64,494)	(64,494)
School administration	1,691,354	-	-	-	(1,691,354)	(1,691,354)
Fiscal services	392,851	-	-	-	(392,851)	(392,851)
Food services	1,520,161	881,011	627,091	-	(12,059)	(12,059)
Student transportation	1,259,435	156,181	-	-	(1,103,254)	(1,103,254)
Operation of plant	2,789,220	-	-	-	(2,789,220)	(2,789,220)
Maintenance of plant	187,968	-	-	-	(187,968)	(187,968)
Community services	212,609	299,786	-	-	87,177	87,177
Interest	277,480	-	-	-	(277,480)	(277,480)
<b>Total primary government</b>	<b>\$ 23,527,435</b>	<b>\$ 1,980,102</b>	<b>\$ 855,666</b>	<b>\$ -</b>	<b>(20,691,667)</b>	<b>(20,691,667)</b>
General revenues:						
State and local sources					21,070,877	21,070,877
Contributions and other revenue					183,152	183,152
Total general revenues					21,254,029	21,254,029
Change in net position					562,362	562,362
Net position at beginning of year (as restated)					(108,788)	(108,788)
Net position at end of year					\$ 453,574	\$ 453,574

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

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2017**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Other Governmental Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,643,627	\$ 257,780	\$ -	\$ 3,901,407
Certificates of deposit	576,058	-	-	576,058
Accounts receivable	38,202	80,376	40,334	158,912
Due from other governmental funds	109,536	-	-	109,536
Due from agency fund	108,002	-	-	108,002
Other assets	259,672	-	-	259,672
Total assets	<u>\$ 4,735,097</u>	<u>\$ 338,156</u>	<u>\$ 40,334</u>	<u>\$ 5,113,587</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenditures	\$ 1,946,679	\$ -	\$ -	\$ 1,946,679
Due to general fund	-	69,202	40,334	109,536
Unearned revenue	-	13,580	-	13,580
Total liabilities	<u>1,946,679</u>	<u>82,782</u>	<u>40,334</u>	<u>2,069,795</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Other assets	259,672	-	-	259,672
Restricted for:				
Food service	-	255,374	-	255,374
Unassigned	2,528,746	-	-	2,528,746
Total fund balances	<u>2,788,418</u>	<u>255,374</u>	<u>-</u>	<u>3,043,792</u>
Total liabilities and fund balances	<u>\$ 4,735,097</u>	<u>\$ 338,156</u>	<u>\$ 40,334</u>	<u>\$ 5,113,587</u>

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

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
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, 2017**

**Total fund balances - total governmental funds** \$ 3,043,792

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 \$15,125,735, and the accumulated depreciation is \$4,708,606. 10,417,129

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. (716,622)

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	8,248,270
Net pension liability	(10,492,479)
Pension related deferred inflows of resources	(4,063,268)

Long-term liabilities, including notes payable and capital leases, 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:

Capital leases	(998,494)
Notes payable	(4,984,754)
	(5,983,248)

**Total net position - governmental activities** \$ 453,574

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

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
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, 2017**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Other Governmental Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Federal sources passed through local school district	\$ -	\$ 855,666	\$ -	\$ 855,666
State and local sources	20,583,033	-	487,844	21,070,877
Contributions and other revenue	1,268,316	881,011	-	2,149,327
Total revenues	<u>21,851,349</u>	<u>1,736,677</u>	<u>487,844</u>	<u>24,075,870</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	12,122,648	154,737	-	12,277,385
Student support	599,093	-	-	599,093
Instructional media	108,766	-	-	108,766
Instructional staff training	265,094	73,838	-	338,932
Instruction-related technology	449,946	-	-	449,946
Board	73,410	-	-	73,410
General administration	64,494	-	-	64,494
School administration	1,611,733	-	-	1,611,733
Fiscal services	375,446	-	-	375,446
Food services	-	1,500,425	-	1,500,425
Student transportation	1,102,946	-	-	1,102,946
Operation of plant	2,301,376	-	487,844	2,789,220
Maintenance of plant	174,434	-	-	174,434
Community services	212,609	-	-	212,609
Debt service:				
Principal	658,560	-	-	658,560
Interest	277,480	-	-	277,480
Capital outlay	975,728	-	-	975,728
Total expenditures	<u>21,373,763</u>	<u>1,729,000</u>	<u>487,844</u>	<u>23,590,607</u>
Excess of revenues over expenditures	<u>477,586</u>	<u>7,677</u>	<u>-</u>	<u>485,263</u>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of capital assets	58,000	-	-	58,000
Total other financing sources	<u>58,000</u>	<u>-</u>	<u>-</u>	<u>58,000</u>
Net changes in fund balances	535,586	7,677	-	543,263
Fund balances at beginning of year (as restated)	<u>2,252,832</u>	<u>247,697</u>	<u>-</u>	<u>2,500,529</u>
Fund balances at end of year	<u>\$ 2,788,418</u>	<u>\$ 255,374</u>	<u>\$ -</u>	<u>\$ 3,043,792</u>

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

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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, 2017**

**Net changes in fund balances - total governmental funds** \$ 543,263

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 of by which capital outlays (\$975,728) exceed depreciation expense (\$960,683) in the current period. 15,045

In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold. (44,073)

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. (25,329)

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. (585,104)

Repayments of long-term liabilities are reported as expenditures in the governmental funds because they require the use of current financial resources. They are reported as a reduction in the long-term liabilities in the statements of net position. The amount represents the current year repayment of the principal on the long-term debt. 658,560

**Change in net position of governmental activities** \$ 562,362

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

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

**JUNE 30, 2017**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 288,906
Total assets	<u>\$ 288,906</u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 1,737
Due to others	179,167
Due to the school	<u>108,002</u>
Total liabilities	<u>\$ 288,906</u>

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

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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

**Organization**

The Schools of McKeel Academy, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act and Section 1002.33, Florida Statutes. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of eight members. The School began when it converted from a public school to a charter school in July 1998.

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 in increments of fifteen years 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, except capital outlay funds, revert back to the School Board. Any unencumbered capital outlay funds revert back to the Florida Department of Education ("FDOE") to be distributed among eligible charter schools. 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's ("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's *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.

**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 SCHOOLS OF MCKEEL ACADEMY, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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 grants that are restricted by law or administrative action to expenditure for specific purposes and to provide a single source of accountability for all funds received.
- Capital Projects Fund – to account for all resources for the acquisition of capital items by the School purchased with capital outlay funds.

For purposes of these statements, the general and special revenue funds constitute major funds. The capital projects fund is considered non-major and is included as the other governmental fund.

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.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**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 60 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.

**Cash and Cash Equivalents and Certificates of Deposit**

Investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents. Cash deposits and certificates of deposit are held by banks qualified as public depositories under Florida law. All deposits held by qualified public depositories are insured by federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

**Receivables**

Receivables consist of amounts due from governmental agencies for capital outlay or other 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 their approximate fair value at the date of donation.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Land improvements	7 - 20
Buildings and improvements	3 - 40
Furniture, fixtures and equipment	3 - 20
Vehicles	3 - 10

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 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 an expense when earned by the employees. The liability for compensated absences is classified as a long-term liability that is due within one year 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 4.

**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 4.

**Fund Balance Spending Policy**

The School's adopted spending policy is to spend from the restricted fund balance first, followed by committed, assigned, then the unassigned fund balance. 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 Directors. The Board of Directors has delegated authority to assign funds to the Director of Schools, Assistant Director of Operations and to the Principals. There are no minimum fund balance requirements for any of the School's 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 FDOE by the state legislature. In accordance with the funding provisions of the charter and Section

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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 School, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds. This administrative fee is calculated on the FEFP revenue up to 250 students. The difference between the actual fee and the fee as calculated on total FEFP revenue is restricted for capital outlay expenditures. As of June 30, 2017, the School had no restricted funds for this purpose.

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.

The School is also eligible for charter school capital outlay funding. The amounts received under this program are based on the School's actual and projected student enrollment during the fiscal year. Funds received under this program may only be used for lawful capital outlay expenditures and, as such, any expended amounts are reflected as restricted in the accompanying financial statements.

### **Income Taxes**

The School 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.

The School has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

The School assesses its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the School believes it is "more likely than not" that its tax positions will be sustained upon an examination by the Internal Revenue Service ("IRS") or the applicable state taxing authority. Accordingly, there is no provision for federal income taxes in the School's financial statements, as the School believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS audit. State income taxes, which may be due in

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

certain jurisdictions, have been assessed following the same “more likely than not” measurement threshold. With few exceptions, the School is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2013.

**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 balance sheet 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 October 17, 2017, 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, 2020. The cumulative effect of any changes adopted to conform to the provisions of this guidance would be reported as a restatement of beginning net position and fund balance. The Company is currently evaluating the effect that implementation of the new standard will have on its financial statements.

**2 INTERFUND ACTIVITIES**

Due to/from other funds consisted of the following balances as of June 30, 2017:

	<b>Interfund Receivables</b>	<b>Interfund Payables</b>
General fund	\$ 109,536	\$ -
Special revenue fund	-	69,202
Other non-major governmental fund	-	40,334
Total interfund	\$ 109,536	\$ 109,536

The amounts payable by the special revenue fund and the other non-major governmental fund to the general fund are to cover temporary cash shortages related to the timing of receipts.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**3 CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 6,084	\$ 408,596	\$ -	\$ 414,680
Land	588,178	-	-	588,178
Total capital assets not being depreciated	<u>594,262</u>	<u>408,596</u>	<u>-</u>	<u>1,002,858</u>
Capital assets being depreciated:				
Land improvements	486,439	38,304	-	524,743
Building and improvements	8,225,472	61,102	-	8,286,574
Furniture, fixtures and equipment	3,082,222	61,736	-	3,143,958
Vehicles	1,939,828	405,990	(178,216)	2,167,602
Total capital assets being depreciated	<u>13,733,961</u>	<u>567,132</u>	<u>(178,216)</u>	<u>14,122,877</u>
Less accumulated depreciation for:				
Land improvements	(116,113)	(25,085)	-	(141,198)
Building and improvements	(1,224,132)	(272,073)	-	(1,496,205)
Furniture, fixtures and equipment	(1,109,436)	(494,361)	-	(1,603,797)
Vehicles	(1,432,385)	(169,164)	134,143	(1,467,406)
Total accumulated depreciation	<u>(3,882,066)</u>	<u>(960,683)</u>	<u>134,143</u>	<u>(4,708,606)</u>
Capital assets being depreciated, net	<u>9,851,895</u>	<u>(393,551)</u>	<u>(44,073)</u>	<u>9,414,271</u>
Governmental activities capital assets, net	<u>\$ 10,446,157</u>	<u>\$ 15,045</u>	<u>\$ (44,073)</u>	<u>\$10,417,129</u>

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 602,191
Student support	30,881
Instructional media	7,720
Instruction-related technology	30,882
School administration	84,925
Fiscal services	15,441
Food services	19,479
Student transportation	154,898
Maintenance of plant	<u>14,266</u>
Total governmental activities depreciation expense	<u>\$ 960,683</u>

**4 LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2017 was as follows:

	<b>Beginning Balance (as restated)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Governmental activities:					
Compensated absences	\$ 691,293	\$ 25,329	\$ -	\$ 716,622	\$ 716,622
Capital leases	1,416,685	-	(418,191)	998,494	441,088
Notes payable	5,225,123	-	(240,369)	4,984,754	211,322
Net pension liability	<u>7,119,189</u>	<u>3,373,290</u>	<u>-</u>	<u>10,492,479</u>	<u>-</u>
Governmental activities, long-term liabilities	<u>\$14,452,290</u>	<u>\$3,398,619</u>	<u>\$(658,560)</u>	<u>\$17,192,349</u>	<u>\$ 1,369,032</u>

**Capital Leases**

The School leases a portion of its equipment under lease agreements that are classified as capital leases. The capital leases require annual or monthly payments of principal and interest at rates between 5% and 15%. The economic substance of the leases is that the School is financing the acquisition of the assets through leases, and, accordingly, they are recorded in the School's statement of net position.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

Leased assets as of June 30, 2017 consist of the following:

	<b>Governmental Activities</b>
Furniture, fixtures and equipment	\$ 1,913,969
Less accumulated depreciation	(733,281)
	<b>\$ 1,180,688</b>

Future debt service requirements related to capital leases are as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 441,088	\$ 56,477	\$ 497,565
2019	457,717	32,152	489,869
2020	89,082	6,930	96,012
2021	10,607	260	10,867
Total	\$ 998,494	\$ 95,819	\$ 1,094,313

**Notes Payable**

Notes payable consisted of the following balances as of June 30, 2017:

Promissory note payable to a financial institution. Interest payments of \$16,000 at a rate of 3.84% were due monthly until September 2015. Beginning in October 2015, principal and interest payments of \$26,105 were due monthly at an interest rate of 3.84%. Beginning in October 2020, principal and interest payments of \$27,134 are due monthly at an interest rate based on the weekly average yield on the United States Treasury Securities adjusted to a constant maturity of five years, as made available by the Federal Reserve Board (currently 1.00%), plus a margin of 2.78 percentage points, adjusted as necessary for the minimum and maximum rate limitations for this loan, resulted in an initial interest rate of 3.78% per annum based on a year of 360 days. The final principal and interest payment is due in September 2025 in the amount of \$3,334,625. Note is secured by one of the School's facilities. Subject to certain non-financial covenants.

\$ 4,784,535

Promissory note payable to a financial institution. Principal and interest payments of \$3,152 are due monthly at an interest rate of 3.65%. Matures in September 2017. Note is secured by certain of the School's motor vehicles.

12,342

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

Promissory note payable to a financial institution. Principal and interest payments of \$1,499 are due monthly at an interest rate of 3.65%. Matures in January 2018. Note is secured by certain of the School's motor vehicles.	8,631
Promissory note payable to a financial institution. Principal and interest payments of \$1,860 are due monthly at an interest rate of 4.35%. Matures in September 2019. Note is secured by a bus.	47,730
Promissory note payable to a financial institution. Principal and interest payments of \$1,822 are due monthly at an interest rate of 3.80%. Matures in February 2020. Note is secured by a bus.	55,377
Promissory note payable to a financial institution. Principal and interest payments of \$1,619 are due monthly at an interest rate of 3.99%. Matures in August 2020. Note is secured by a bus.	57,700
Promissory note payable to a financial institution. Principal and interest payments of \$482 are due monthly at an interest rate of 4.05%. Matures in November 2020. Note is secured by a truck.	<u>18,439</u>
Total notes payable	4,984,754
Less amount due or payable within one year	<u>(211,322)</u>
Amount due or payable after one year	<u><u>\$ 4,773,432</u></u>

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

Year ended June 30,	Principal	Interest	Total
2018	\$ 211,322	\$ 187,496	\$ 398,818
2019	197,937	179,572	377,509
2020	181,505	169,249	350,754
2021	304,432	171,350	475,782
2022	191,402	169,073	360,475
2023 - 2026	<u>3,898,156</u>	<u>500,735</u>	<u>4,398,891</u>
Total	<u><u>\$ 4,984,754</u></u>	<u><u>\$ 1,377,475</u></u>	<u><u>\$ 6,362,229</u></u>

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**5 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, 2016, 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 does not include these amounts.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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%	7.52%
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

Actuarial assumptions for both cost-sharing defined benefit plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS Pension Plan has a valuation 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 2014 for the period July 1, 2008, through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study for the FRS Pension Plan.

The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth, including inflation, for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.60%. 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 2.85% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

The following changes in actuarial assumptions occurred in 2016:

- FRS: The long-term expected rate of return was decreased from 7.65% to 7.60%, and the active member mortality assumption was updated.
- HIS: The municipal rate used to determine total pension liability was decreased from 3.80% to 2.85%.

The following presents the School's proportionate share of the net pension liabilities calculated using the discount rates, as well as what the School's proportionate share of the net pension liabilities would be if they were calculated using discount rates that are 1% lower or 1% higher than the current rates as of June 30, 2016:

<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>
6.60%	7.60%	8.60%	1.85%	2.85%	3.85%
\$ 11,289,299	\$ 6,131,931	\$ 1,839,102	\$ 5,002,539	\$ 4,360,548	\$ 3,827,730

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, 2016, are shown below (in thousands):

	<b>FRS</b>	<b>HIS</b>
Total pension liability	\$ 167,030,999	\$ 11,768,445
Plan fiduciary net position	(141,780,921)	(113,859)
Net pension liability	<u>\$ 25,250,078</u>	<u>\$ 11,654,586</u>

Plan fiduciary net position as a percentage of the total pension liability	84.88%	0.97%
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The total pension liability for the FRS Pension Plan was determined by the plan's actuary and reported in the plan's valuation dated July 1, 2016. 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.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

The HIS actuarial valuation was prepared as of July 1, 2016. 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.

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

As of June 30, 2017, the School reported a liability of \$10,492,479 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 ending June 30, 2014, 2015 and 2016, respectively, 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.

The School's proportions are as follows:

	<b>FRS</b>	<b>HIS</b>
June 30, 2016	0.0243%	0.0374%
June 30, 2015	0.0267%	0.0359%
Change	-0.0024%	0.0015%

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.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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, 2016, was 6.4 years for FRS and 7.2 years for HIS.

For the year ended June 30, 2017, the School recognized pension expense of \$1,461,778. As of June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 469,508	\$ 67,024
Changes of assumptions	1,055,244	-
Net difference between projected and actual earnings on pension plan investments	2,823,120	1,235,886
Changes in proportion and differences between School contributions and proportionate share of contributions	3,099,682	2,760,358
School contributions subsequent to the measurement date	800,716	-
<b>Total</b>	<b>\$ 8,248,270</b>	<b>\$ 4,063,268</b>

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:

<b>Reporting period ended June 30:</b>	<b>Amount</b>
2018	\$ 507,261
2019	507,261
2020	1,130,174
2021	829,193
2022	249,177
Thereafter	161,220

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**6 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	\$ 12,739,918
Class size reduction	3,130,259
Student transportation	797,769
Discretionary millage	718,594
Supplemental academic instruction	687,140
Discretionary tax equalization	659,315
Capital outlay	487,844
ESE guaranteed allocation	412,720
School recognition funds	299,967
Instructional materials	240,229
VPK	231,634
Best and brightest scholarship	143,155
Reading allocation	125,641
Other FEFP	107,590
Advanced placement testing	97,020
Career and professional education act (CAPE)	68,236
Digital classrooms allocation	63,004
Teacher lead	47,256
Dual enrollment	13,586
	<hr/>
Total	<u><u>\$ 21,070,877</u></u>

The administration fee paid to the School Board during the year ended June 30, 2017 totaled approximately \$64,000, which is reflected as general administration expense/expenditure in the accompanying financial statements.

**7 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, 2017 may be impaired.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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.

**Operating Leases**

The School leases one of its facilities under a non-cancelable operating lease that requires monthly payments of \$93,492 through July 2029 and requires the School to pay insurance and other costs. The School also leases certain equipment under non-cancelable operating leases that require monthly payments from \$1,020 to \$2,495 with expirations on various dates through April 2018. Aggregate remaining minimum rental commitments as of June 30, 2017 under these leases are summarized as follows:

<b>Year Ended June 30,</b>	<b>Amount</b>
2018	\$ 1,132,109
2019	1,121,911
2020	1,121,911
2021	1,121,911
2022	1,121,911
2023 - 2027	5,609,555
2028 - 2030	2,336,573
Total future minimum lease payments	<b>\$ 13,565,881</b>

Lease expense totaled approximately \$1,461,000 for the year ended June 30, 2017, of which approximately \$243,000 is included in instruction, \$84,000 is included in school administration and \$1,134,000 is included in operation of plant in the accompanying financial statements.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Capital Lease Commitment**

In June 2017, the School entered into a capital lease agreement for computer equipment, which was delivered to the School after year end. The lease requires four annual payments of \$46,106 at an interest rate of 5.37%.

**8 PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2017, the School discovered that its payroll and paid time off accrued liabilities were not completely recorded. The table below summarizes the effect of the restatement of previously reported financial statements for the year ended June 30, 2016:

	<b>June 30, 2016</b>		
	<b>Previously Reported</b>	<b>Prior Period Adjustment</b>	<b>As Restated</b>
Statement of net position:			
Accounts payable and accrued expenses	\$ 1,271,388	\$ 547,398	\$ 1,818,786
Long-term liabilities:			
Portion due within one year	299,448	391,845	691,293
Net position	830,455	(939,243)	(108,788)
Balance sheet - governmental funds:			
Accounts payable and accrued expenditures	1,271,388	547,398	1,818,786
Fund balance	3,047,927	(547,398)	2,500,529

**9 SUBSEQUENT EVENT**

After year end, the School entered into a capital lease agreement for a copier, which requires monthly payments of \$1,009 for sixty months at an interest rate of 6%.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget- Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
State and local sources	\$ 19,712,530	\$ 20,583,112	\$ 20,583,033	\$ (79)
Contributions and other revenue	912,931	1,264,692	1,268,316	3,624
Total revenues	<u>20,625,461</u>	<u>21,847,804</u>	<u>21,851,349</u>	<u>3,545</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	11,893,362	12,118,569	12,122,648	(4,079)
Student support	573,499	600,094	599,093	1,001
Instructional media	104,999	108,726	108,766	(40)
Instructional staff training	169,437	336,843	265,094	71,749
Instruction-related technology	418,891	449,548	449,946	(398)
Board	35,950	73,410	73,410	-
General administration	-	-	64,494	(64,494)
School administration	1,796,650	1,747,091	1,611,733	135,358
Fiscal services	401,969	373,377	375,446	(2,069)
Student transportation	1,620,798	2,053,732	1,102,946	950,786
Operation of plant	2,701,729	2,299,129	2,301,376	(2,247)
Maintenance of plant	188,904	164,771	174,434	(9,663)
Community services	262,089	185,042	212,609	(27,567)
Debt service:				
Principal	124,294	-	658,560	(658,560)
Interest	314,183	254,479	277,480	(23,001)
Capital outlay	-	-	975,728	(975,728)
Total expenditures	<u>20,606,754</u>	<u>20,764,811</u>	<u>21,373,763</u>	<u>(608,952)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>18,707</u>	<u>1,082,993</u>	<u>477,586</u>	<u>(605,407)</u>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of capital assets	-	-	58,000	(58,000)
Total other financing sources	<u>-</u>	<u>-</u>	<u>58,000</u>	<u>58,000</u>
Net changes in fund balance	18,707	1,082,993	535,586	(547,407)
Fund balance at beginning of year (as restated)	<u>2,252,832</u>	<u>2,252,832</u>	<u>2,252,832</u>	<u>-</u>
Fund balance at end of year	<u>\$ 2,271,539</u>	<u>\$ 3,335,825</u>	<u>\$ 2,788,418</u>	<u>\$ (547,407)</u>

See independent auditor's report.

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
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**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget- Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Federal sources passed through local school district	\$ 730,797	\$ 854,110	\$ 855,666	\$ 1,556
Contributions and other revenue	903,825	881,011	881,011	-
Total revenues	<u>1,634,622</u>	<u>1,735,121</u>	<u>1,736,677</u>	<u>1,556</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	249,745	157,725	154,737	2,988
Instructional staff training	-	78,500	73,838	4,662
Food services	1,384,877	1,498,896	1,500,425	(1,529)
Total expenditures	<u>1,634,622</u>	<u>1,735,121</u>	<u>1,729,000</u>	<u>6,121</u>
Net changes in fund balance	-	-	7,677	7,677
Fund balance at beginning of year	247,697	247,697	247,697	-
Fund balance at end of year	<u>\$ 247,697</u>	<u>\$ 247,697</u>	<u>\$ 255,374</u>	<u>\$ 7,677</u>

See independent auditor's report.

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
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**REQUIRED SUPPLEMENTARY INFORMATION**

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Florida Retirement System (FRS) Pension Plan</b>										
School's proportion of the net pension liability (asset)	0.0243%	0.0267%	0.0251%							
School's proportionate share of the net pension liability (asset)	\$ 6,131,931	\$ 3,453,351	\$ 1,531,879							
School's covered-employee payroll	\$ 9,596,671	\$ 9,163,350	\$ 8,311,608							
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	64%	38%	18%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	85%	92%	96%							
<b>Retiree Health Insurance Subsidy (HIS) Program</b>										
School's proportion of the net pension liability (asset)	0.0374%	0.0359%	0.0337%							
School's proportionate share of the net pension liability (asset)	\$ 4,360,548	\$ 3,665,838	\$ 3,151,429							
School's covered-employee payroll	\$ 11,562,254	\$ 11,040,181	\$ 10,013,986							
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	38%	33%	31%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	1%	1%	1%							

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

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

See independent auditor's report.

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
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**REQUIRED SUPPLEMENTARY INFORMATION**

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Florida Retirement System (FRS) Pension Plan										
Contractually required contribution	\$ 608,700	\$ 592,224	\$ 651,854	\$ 549,944	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	608,700	592,224	651,854	549,944						
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
School's covered-employee payroll	\$ 9,571,399	\$ 9,596,671	\$ 9,163,350	\$ 8,311,608						
Contributions as a percentage of covered-employee payroll	6%	6%	7%	7%						
Retiree Health Insurance Subsidy (HIS) Program										
Contractually required contribution	\$ 192,016	\$ 191,775	\$ 137,407	\$ 115,459	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	192,016	191,775	137,407	115,459						
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
School's covered-employee payroll	\$ 11,564,842	\$ 11,562,254	\$ 11,040,181	\$ 10,013,986						
Contributions as a percentage of covered-employee payroll	2%	2%	1%	1%						

See independent auditor's report.

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2017**

<b>Federal Grantor / Pass-Through Grantor / Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Period</b>	<b>Expenditures</b>
United States Department of Agriculture / Florida Department of Agriculture and Consumer Services / School Breakfast Program	10.553	7/1/2016 - 6/30/2017	\$ 83,671
United States Department of Agriculture / Florida Department of Education / National School Lunch Program	10.555	7/1/2016 - 6/30/2017	434,339
United States Department of Agriculture / Florida Department of Education / Afterschool Snack Program	10.555	7/1/2016 - 6/30/2017	<u>17,302</u>
Total Child Nutrition Cluster			<u>535,312</u>
United States Department of Agriculture / Emergency Food Assistance Program (Food Commodities)	10.569	7/1/2016 - 6/30/2017	91,779
United States Department of Education / Florida Department of Education / Special Education - Grants to States (IDEA, Part B)	84.027	7/1/2016 - 6/30/2017	154,737
United States Department of Education / Florida Department of Education / Improving Teacher Quality State Grants (Title II)	84.367	7/1/2016 - 6/30/2017	<u>73,838</u>
Total Expenditures of Federal Awards			<u><u>\$ 855,666</u></u>

See accompanying note to schedule of expenditures of federal awards.

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
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**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2017**

**1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Company and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance).

For the year ended June 30, 2017, the Company did not elect to use the 10% de minimis indirect cost rate.

**Independent Auditor’s Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of The Schools of McKeel Academy, Inc., 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 The Schools of McKeel Academy, Inc. (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, 2017, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements, and have issued our report thereon dated October 17, 2017.

**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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2017-001 that we consider to be a material weakness.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The School's Response to Findings**

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

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



Winter Park, Florida  
October 17, 2017

## **Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors of The Schools of McKeel Academy, Inc., a Charter School  
and Component Unit of the District School Board of Polk County, Florida

### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited The Schools of McKeel Academy, Inc.'s, (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

## **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Winter Park, Florida  
October 17, 2017

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
A CHARTER COMPONENT UNIT  
OF THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Grant Period</u>	<u>Name of Federal Program</u>
10.553	7/1/2016 – 6/30/2017	School Breakfast Program
10.555	7/1/2016 – 6/30/2017	National School Lunch Program
10.555	7/1/2016 – 6/30/2017	Afterschool Snack Program

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as a low-risk auditee?	No
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**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
A CHARTER COMPONENT UNIT  
OF THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(continued)**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

Finding 2017-001: Payroll Accruals

Criteria:

The School is responsible for completely recording payroll transactions, including payroll accruals, in accordance with generally accepted accounting principles.

Statement of condition:

During our audit we determined that the payroll and paid time off accruals were not completely recorded in the current and prior periods. A prior period adjustment was recorded which restated beginning net assets by a material amount. Under AU-C 265, the “restatement of previously issued financial statements to reflect the correction of a material misstatement” is a strong indicator of a material weakness in internal controls.

Questioned costs:

None

Effect of condition:

The School has a material weakness in its internal control over payroll accruals.

Cause of condition:

The School does not appear to have adequate monitoring controls over payroll accruals.

Recommendation:

We recommend that the School more closely monitor the accounting effects of the School’s payroll policies.

Management’s response:

Several years ago, we modified our pay periods resulting in teachers being paid two weeks in arrears. This change resulted in an additional two week “holdback” variance between the teacher contract year and our fiscal year. In the year this pay period modification was made, we did not adjust our accrued payroll at year end to include the additional two week gap between contract and fiscal year. (I.e.: we should have recorded 7/15, 7/31 and 8/15 pay periods, but the 8/15 pay period was recorded in the following fiscal year instead) The payroll accrual has been calculated consistently over time. So, for example, year ended June 30, 2017 includes August 15, 2016 payroll instead of the August 15, 2017 which is a net difference of less than \$2,000. The adjustment is only to prior periods in order to capture the dollars from the year this change was implemented. All employees have been paid correctly. Management will modify our accrual calculation from this point forward. Further, we will ensure any payroll policy changes are carefully evaluated for any accounting impact.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**THE SCHOOLS OF MCKEEL ACADEMY, INC.  
A CHARTER COMPONENT UNIT  
OF THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(continued)**

**SECTION IV - STATUS OF PRIOR YEAR AUDIT FINDINGS**

The prior year audit was not required to be conducted in accordance with the Uniform Guidance; therefore, there were no prior year audit findings.

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

To the Board of Directors of The Schools of McKeel Academy, Inc., 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 The Schools of McKeel Academy, Inc. (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, 2017, and have issued our report thereon dated October 17, 2017.

## **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; the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and Chapter 10.850, Rules of the Auditor General.

## **OTHER REPORTS AND SCHEDULES**

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*, Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated October 17, 2017, 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 or 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 school. The name of the School is The Schools of McKeel Academy, Inc.

## **FINANCIAL CONDITION**

Section 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the School has met one or more of the

conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions 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 the review of financial information provided by same.

### **TRANSPARENCY**

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the 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.

### **OTHER MATTERS**

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. Our recommendation to improve financial management is included in finding 2017-001.

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

### **PURPOSE OF THIS LETTER**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, applicable management, and the 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.

*BKHM, P.A.*

Winter Park, Florida  
October 17, 2017