

THE CHARTER SCHOOLS OF EXCELLENCE, INC.

#5026 DAVIE 2 CAMPUS

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

BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2014

Charles A. Krblich, P.A.

Certified Public Accountants

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Charles A. Krblich, P.A.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus (the "School"), a charter school under The Charter Schools of Excellence, Inc. and a component unit of the Broward County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A, the accompanying financial statements referred to above present only the financial position of The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus at June 30, 2014, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of The Charter Schools of Excellence, Inc.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2014, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus's internal control over financial reporting and compliance.



Fort Lauderdale, Florida
September 27, 2014

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and Component Unit of
the Broward County School District*
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus's management discussion and analysis presents an overview of the School's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the School's financial statements beginning on page 7.

FINANCIAL HIGHLIGHTS

- The total net position at fiscal year-end had a surplus of \$125 thousand. Assets exceeded Liabilities (net position) by \$125 thousand; net position consists of an investment in capital assets of \$123 thousand and unrestricted net position surplus of \$2 thousand.
- General revenues accounted for \$956 thousand, or 88% of all revenues. Program specific revenues consisting of grants, contributions and charges for services accounted for \$124 thousand or 12% of revenues.
- On a *funds* basis, there was an excess of expenditures over revenue of \$41 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

Notes to the Basic Financial Statements

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the School, assets exceeded liabilities by \$125 thousand at the close of the most recent fiscal year.

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus’s Net Position

	Component Unit Activities	
	2014	2013
Current and other assets	\$ 111,054	\$ 133,601
Capital assets	122,971	16,822
Total assets	<u>234,025</u>	<u>150,423</u>
Other liabilities	108,650	90,346
Total liabilities	<u>108,650</u>	<u>90,346</u>
Net position:		
Capital assets	122,971	16,822
Unrestricted	2,404	43,255
Total net position	<u>\$ 125,375</u>	<u>\$ 60,077</u>

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus's Changes in Net Position

	Component Unit Activities		Increase (Decrease) From
	2014	2013	Fiscal 2013
Revenues			
Program revenues			
Charges for services	\$ 27,894	\$ 34,306	\$ (6,412)
Operating grants and contributions	95,621	126,913	(31,292)
General revenues			
State sources	899,912	862,326	37,586
Other local revenues	56,295	61,251	(4,956)
Loss on sale of capital assets	166	772	(606)
Total revenues	<u>1,079,888</u>	<u>1,085,568</u>	<u>(5,680)</u>
Expenses			
Instructional	434,225	354,284	79,941
Pupil personnel services	7,563	11,095	(3,532)
Instruction and curriculum development	1,005	1,971	(966)
Instructional staff training services	3,221	13	3,208
General administration	89,199	69,377	19,822
School administration	69,570	163,920	(94,350)
Facilities acquisition and construction	57,809	57,285	524
Fiscal services	88,716	125,989	(37,273)
Food services	50,348	52,973	(2,625)
Central services	112,051	134,026	(21,975)
Pupil transportation services	44,100	42,065	2,035
Operation of plant	41,701	26,955	14,746
Maintenance of plant	<u>15,082</u>	<u>10,313</u>	<u>4,769</u>
Total expenses	<u>1,014,590</u>	<u>1,050,266</u>	<u>(35,676)</u>
Changes in net position	65,298	35,302	29,996
Net position – beginning	<u>60,077</u>	<u>24,775</u>	<u>35,302</u>
Net position – ending	<u>\$ 125,375</u>	<u>\$ 60,077</u>	<u>\$ 65,298</u>

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

- The largest dollar decrease in revenues was from operating grants due to a decrease in grant awards from the previous year and the largest increase was in state sources.
- The largest decrease in expenses was fiscal services, school administration and central services and the largest increase was in instructional.

Financial Analysis of the School's Funds

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

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

General fund. The General Fund is the chief operating fund of the School. At the end of the fiscal year, the General Fund had a surplus balance of \$2 thousand.

General Fund Budgetary Highlights

- Total revenues were less than budgeted amounts by \$25 thousand. Local sources of revenues were over the amounts budgeted by \$22 thousand.
- Budgeted expenditures were exceeded primarily in instructional, general administration, facilities acquisition and construction, fiscal services, and capital outlay.

Capital Asset Administration

Capital assets at June 30, 2014 and 2013 are outlined below:

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus's Capital Assets (Net of depreciation)

	Component Unit Activities	
	2014	2013
Construction in progress, not being depreciated	\$ 101,451	\$ -
Leasehold improvements, net of depreciation	2,642	3,928
Furniture, fixtures and equipment, net of depreciation	18,878	12,894
Total capital assets, net of depreciation	\$ 122,971	\$ 16,822

Additional information on the School's capital assets can be found in Note B to the financial statements. (See page 18 of this report).

Requests for Information

This financial report is designed to provide a general overview of The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, The Charter Schools of Excellence, Inc., 1217 Southeast 3rd Avenue, Fort Lauderdale, Florida 33316.

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of the Broward County School District*

Statement of Net Position

June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 27,640
Due from other agencies	83,414
Capital assets, net	<u>122,971</u>
Total assets	<u>234,025</u>
DEFERRED OUTFLOWS OF RESOURCES	
	<u>-</u>
LIABILITIES	
Accounts payable and accrued expenditures/expenses	84,863
Accrued payroll, payroll taxes and withholdings	<u>23,787</u>
Total liabilities	<u>108,650</u>
DEFERRED INFLOWS OF RESOURCES	
	<u>-</u>
NET POSITION	
Investment in capital assets	122,971
Unrestricted	<u>2,404</u>
Total net position	<u><u>\$ 125,375</u></u>

See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of the Broward County School District*

Statement of Activities

For the year ended June 30, 2014

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position
PROGRAM EXPENSES AND REVENUES:					
COMPONENT UNIT ACTIVITIES:					
Instructional	\$ 434,225	\$ 22,358	-	-	\$ (411,867)
Pupil personnel services	7,563	-	-	-	(7,563)
Instruction and curriculum development	1,005	-	-	-	(1,005)
Instructional staff training services	3,221	-	-	-	(3,221)
General administration	89,199	-	-	-	(89,199)
School administration	69,570	-	-	-	(69,570)
Facilities acquisition and construction	57,809	-	-	56,992	(817)
Fiscal services	88,716	-	-	-	(88,716)
Food services	50,348	5,536	38,629	-	(6,183)
Central services	112,051	-	-	-	(112,051)
Pupil transportation services	44,100	-	-	-	(44,100)
Operation of plant	41,701	-	-	-	(41,701)
Maintenance of plant	15,082	-	-	-	(15,082)
	\$ 1,014,590	\$ 27,894	\$ 38,629	\$ 56,992	(891,075)
GENERAL REVENUES:					
State Sources - categorical programs and other					899,912
Other local sources					56,295
Unrestricted investment earnings, net					166
Total general revenues					956,373
					65,298
					60,077
					\$ 125,375

See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of the Broward County School District*
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2014

	General Fund
ASSETS	
Cash and cash equivalents	\$ 27,640
Due from other agencies	83,414
Total assets	\$ 111,054
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and accrued expenditures/expenses	\$ 84,863
Accrued payroll, payroll taxes and withholdings	23,787
Total liabilities	108,650
 FUND BALANCE	
Spendable - unassigned	2,404
Total fund balance	2,404
Total liabilities and fund balance	\$ 111,054

See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of the Broward County School District
RECONCILIATION of the BALANCE SHEET - GOVERNMENTAL FUND
to the STATEMENT OF NET POSITION
 June 30, 2014

Total fund balance - governmental fund	\$	2,404
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in component unit activities are not financial resources and are not reported in the funds. Total cost of assets is \$144,841 and the accumulated depreciation is \$21,870.

		122,971
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Total net position - governmental activities	\$	125,375
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See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of the Broward County School District*
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND**

For the year ended June 30, 2014

	<u>General Fund</u>
REVENUES:	
State sources	
Categorical programs and other	\$ 899,912
Capital outlay funding	56,992
Total state sources	<u>956,904</u>
Local sources	
Fundraising and contributions, net	1,175
Grants and other	121,643
Total local sources	<u>122,818</u>
Unrestricted investment earnings	<u>166</u>
Total Revenues	1,079,888
EXPENDITURES:	
Current	
Instructional	427,590
Pupil personnel services	7,563
Instruction and curriculum development	1,005
Instructional staff training services	3,221
General administration	89,199
School administration	69,423
Facilities acquisition and construction	57,809
Fiscal services	88,716
Food services	50,348
Central services	112,051
Pupil transportation services	44,100
Operation of plant	41,701
Maintenance of plant	15,082
Capital outlay	112,931
Total Expenditures	<u>1,120,739</u>
Net change in fund balance	(40,851)
Fund Balance - Beginning of Year	<u>43,255</u>
Fund Balance - End of Year	<u>\$ 2,404</u>

See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
A Charter School under The Charter Schools of Excellence, Inc. and
a Component Unit of the Broward County School District
RECONCILIATION of the STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
to the STATEMENT OF ACTIVITIES
 For the year ended June 30, 2014

Net change in fund balance - governmental fund	\$ (40,851)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities the costs of those capital outlays that benefit the School are posted as assets and are allocated over their estimated useful lives and reported as depreciation. Also the disposition of capital assets (net book value) are deducted from the sale of fixed assets. This amount is the net by which capital outlays (\$112,931) exceeded depreciation (\$6,782).

106,149

Change in net position - governmental activities	\$ <u><u>65,298</u></u>
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See accompanying notes to the basic financial statements.

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and a Component Unit of the
Broward County School District*

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus (the “School” or “Charter School”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Based on guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – Audits of State and Local Governments and provisions of Florida Statutes, the School is presented as a governmental organization for financial statement reporting purposes.

Reporting Entity

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus is a charter school under The Charter Schools of Excellence, Inc., a not-for-profit corporation, organized pursuant to Chapter 617, of the Florida Statutes, the Florida Not for Profit Corporation Act, and Section 228.056, of the Florida Statutes. The governing body of the School is the Board of Directors of The Charter Schools of Excellence, Inc., which governs various other charter schools. The charter provides that the day-to-day financial management and internal accounting procedures of the Charter School are under the purview of the management of the Charter School.

The general operating authority of the Charter School is contained in Section 228.056, of the Florida Statutes. The Charter School operates under a charter of the sponsoring school district, the Broward County School District (the “District”). The charter is effective for a period of five years commencing July 1, 2010 and ending June 30, 2015 and may be renewed for such duration as may be established by mutual written agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus is considered a component unit of the Broward County School District.

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

Component Unit and Fund Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and a Component Unit of the
Broward County School District*
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE A – CONTINUED

Component Unit and Fund Financial Statements - continued

identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting and Basis of Presentation

Component Unit Financial Statements:

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

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

Fund Financial Statements:

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

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

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and a Component Unit of the
 Broward County School District*
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2014

NOTE A – CONTINUED

Investments

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

Capital Assets

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

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

Fund Balance

Governmental accounting standards require fund balance be divided into five classifications, and provide for a hierarchy of spending constraints for spendable resources and requires disclosure of non-spendable and spendable resources. Spendable resources are shown as Restricted, Committed, Assigned, and Unassigned as considered appropriate in the School's circumstances. The School has reported its remaining fund balance of \$2,404 as spendable-unassigned on its Balance Sheet – Governmental Fund. The School applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available.

Revenue Sources

Revenues for operations will be received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School will report the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent (FTE) students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program (FEFP) and the actual weighted full-time

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE A – CONTINUED

Revenue Sources – continued

equivalent students reported by the School during the designated full-time equivalent student survey periods. In addition, the School receives an annual allocation of charter school capital outlay funds for leasing of school facilities.

The basic amount of funding through the FEFP under Section 1011.62 is the product of (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplied by (3) the base student allocation established by the legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in the Florida Statutes. For the fiscal year ended June 30, 2014, the School reported 138 unweighted FTE and 153.17 weighted FTE.

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

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

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

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

Compensated Absences

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE A – CONTINUED

Long-Term Obligations

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

Net Position

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

Use of Estimates

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

Due To/From Other Agencies

The Charter Schools of Excellence, Inc. operates eight charter schools and certain administrative and fiscal costs are shared by all of the campuses. In addition, the School shares facilities with The Charter Schools of Excellence, Inc. #5271 Davie 1 Campus. The expenses are either specifically identified with a campus or allocated to the schools based upon the number of students enrolled at each campus. Transactions related to these allocations of costs and related repayments are accounted for in Due To/From Other Agencies.

Budgetary Data

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

Deposit Policy

It is the School's policy to maintain its cash and cash equivalents in major banks. The School has no policy requiring collateral to support its cash deposits although the School's deposits are covered by the Federal Depository Insurance Corporation (FDIC) up to \$250,000. At June 30, 2014, The Charter Schools of Excellence, Inc., as a whole, had approximately \$39,000 in excess of

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NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE A – CONTINUED

Deposit Policy - continued

FDIC insured amounts. The School has not experienced any losses in such accounts and does not believe it is exposed to any significant credit or custodial risk.

Date of Management Review

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

NOTE B – CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2014 is as follows:

Description	Beginning Balance	Additions	Removals	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 101,451	\$ -	\$ 101,451
Total capital assets, not being depreciated	-	101,451	-	101,451
Capital assets, being depreciated				
Leasehold improvements	\$ 6,430	\$ -	\$ -	\$ 6,430
Furniture, fixtures and equipment	25,480	11,480	-	36,960
Total capital assets, being depreciated	31,910	11,480	-	43,390
Accumulated depreciation:				
Leasehold improvements	(2,502)	(1,286)	-	(3,788)
Furniture, fixtures and equipment	(12,586)	(5,496)	-	(18,082)
Total accumulated depreciation	(15,088)	(6,782)	-	(21,870)
Total capital assets, being depreciated, net	16,822	4,698	-	21,520
Total capital assets, net	\$ 16,822	\$ 106,149	\$ -	\$ 122,971

Depreciation was charged to School functions as follows:

Component unit activities:	
Instructional	\$ 6,635
School Administration	147
Total depreciation expense	<u>\$ 6,782</u>

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NOTE C – RELATED PARTY TRANSACTIONS

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

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

The Charter Schools of Excellence, Inc. operates various other charter schools. All of the schools operated by the The Charter Schools of Excellence, Inc. share administrative staff, as well as other operating expenses. In addition, the School shares facilities with The Charter School of Excellence, Inc. #5271 Davie 1 Campus. At June 30, 2014, the basic financial statements include an amount due from other campuses totaling \$83,414, representing short-term advances for such expenses as mentioned above.

NOTE D – RETIREMENT PLAN

The School participates in the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of the FRS. Benefits in the Plan vest at six years of service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified age. The Plan provides retirement, disability and death benefits, and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust and accrue interest. The School had no DROP participants during fiscal 2014.

Funding Policy

The contribution rates for members are established, and may be amended, by the State of Florida. The School's liability for participation in the Plan is limited to the payment of required contribution at the rates and frequencies established by law on future payroll of the School. The School's contribution to the Plan for the year ended June 30, 2014 totaled \$31,258, which was equal to the required contributions for the fiscal year. During the 2014 fiscal year, contribution rates were as follows:

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NOTE D – CONTINUED

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.0%	6.95%
Florida Retirement System, Reemployed Retiree	(B)	(B)

(A) Employer rates include 1.20% for the post-employment health insurance supplement and 0.03% for administrative costs of the Public Employee Optional Retirement Program.

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

Defined Contribution Plan

Effective July 1, 2002, the Public Employee Optional Retirement Program (PEORP) was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (i.e., regular class, reemployed retiree, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. The School had no PEORP participants during fiscal 2014.

Pension Reporting

The financial statements and other supplemental information of the FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained by contacting the Florida Department of Financial Services in Tallahassee, Florida. Also, an annual report on the FRS, which includes its financial statements, required supplemental information, actuarial report and other relevant information, may be obtained from the State of Florida, Division of Retirement, in Tallahassee, Florida.

NOTE E – RISK MANAGEMENT

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

NOTE F – MAJOR CONTRACTS

The Board of Directors of The Charter Schools of Excellence, Inc. has entered into an employment contract with its Superintendent. The term of this agreement commenced April 16, 2008 and continues until April 15, 2023 or until employment is terminated. Under the terms of this contract, the Superintendent is entitled to severance pay if the contract is terminated without showing reasonable cause in the amount equal to all of the aggregate salary and benefits to which the Superintendent would have otherwise been entitled under the agreement, from the date of termination for the remaining term of the agreement, in a lump sum within thirty days after the date of termination. It is impractical to estimate the amount of compensation relating to a termination,

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NOTE F – CONTINUED

and, accordingly, no liability has been recognized in the accompanying financial statements. It is the School's policy to recognize these costs of termination when and if actually paid.

NOTE G – FEDERAL, STATE AND LOCAL REVENUE SOURCES

The following is a schedule of the School's Federal, State and Local revenues for the year ended June 30, 2014.

Sources	Amount
Federal:	
Child Nutrition Cluster	\$ 38,629
Title I	22,547
Total Federal Revenues	<u>\$ 61,176</u>
State:	
Florida Education Finance Program	\$ 589,180
Categorical Education Programs:	
Class Size Reduction	197,612
Supplementary Academic Instruction	27,416
Instructional Materials	10,032
Safe School	3,250
Teacher Salary Allocation	25,489
Transportation	8,424
ESE Guaranteed Allocation	11,790
Science Lab & Library Media	765
Discretionary Lottery	1,408
Capital Outlay	56,992
Florida Teachers Lead Program	1,999
Total State Revenues	<u>\$ 934,357</u>
Local:	
Discretionary Local	\$ 55,120
Enrichment	22,358
School Lunch Sales	5,536
Other	1,175
Total Local Revenues	<u>\$ 84,189</u>
Total Federal, State and Local Revenues	<u>\$ 1,079,722</u>

As provided in the charter school contract, the District has charged the School an administrative fee equal to 5% of the total funding or \$45,102, which is reflected in fiscal services expense/expenditures in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balance-governmental fund.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE H – COMMITMENTS AND 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.

Leases

The School leases facilities under an operating lease. In addition, the School leases administrative offices from a private foundation controlled by members of the Board of Directors. See Note C. Rent expense for the year ended June 30, 2014 was \$57,915. Of this amount \$6,915, was paid to the related parties.

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

2015	\$ 50,529
2016	\$ 50,529
2017	\$ 50,529
2018	\$ 50,529
2019	\$ 50,529
Thereafter	\$ 202,114

Funding and Credit Concentrations

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

The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus
*A Charter School under The Charter Schools of Excellence, Inc. and
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REQUIRED SUPPLEMENTAL INFORMATION

BUDGET TO ACTUAL COMPARISON SCHEDULE - GENERAL FUND

For the year ended June 30, 2014

REVENUES:	Budgeted (Original and Final)	Actual Amounts	Variance Favorable (Unfavorable)
Categorical programs and other	\$ 1,004,091	\$ 956,904	\$ (47,187)
Total state sources	<u>1,004,091</u>	<u>956,904</u>	<u>(47,187)</u>
Local sources			
Fundraising and contributions, net	11,013	1,175	(9,838)
Grants and other	89,537	121,643	32,106
Total local sources	<u>100,550</u>	<u>122,818</u>	<u>22,268</u>
Unrestricted investment earnings	<u>-</u>	<u>166</u>	<u>166</u>
Total Revenues	<u>1,104,641</u>	<u>1,079,888</u>	<u>(24,753)</u>
EXPENDITURES:			
Current			
Instructional	401,860	427,590	(25,730)
Pupil personnel services	18,804	7,563	11,241
Instruction and curriculum development	9,600	1,005	8,595
Instructional staff training services	-	3,221	(3,221)
General administration	39,174	89,199	(50,025)
School administration	103,875	69,423	34,452
Facilities acquisition and construction	-	57,809	(57,809)
Fiscal services	66,000	88,716	(22,716)
Food services	45,197	50,348	(5,151)
Central services	205,200	112,051	93,149
Pupil transportation services	44,000	44,100	(100)
Operation of plant	72,000	41,701	30,299
Maintenance of plant	7,200	15,082	(7,882)
Capital outlay	<u>-</u>	<u>112,931</u>	<u>(112,931)</u>
Total Expenditures	<u>1,012,910</u>	<u>1,120,739</u>	<u>(107,829)</u>
Net change in fund balance	<u>91,731</u>	<u>(40,851)</u>	<u>(132,582)</u>
Fund Balance - Beginning of Year	<u>43,255</u>	<u>43,255</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 134,986</u>	<u>\$ 2,404</u>	<u>\$ (132,582)</u>

See Independent Auditor's Report.

Charles A. Krblich, P.A.

Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus (the "School"), a charter school under The Charter Schools of Excellence, Inc. and a component unit of the Broward County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in blue ink that reads "Charles A. Khalil" followed by "PACPA" in a smaller font.

Fort Lauderdale, Florida
September 27, 2014

Charles A. Krblich, P.A.

Certified Public Accountants

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

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

Report on the Financial Statements

We have audited the financial statements of The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus (the "School"), a charter school under The Charter Schools of Excellence, Inc. and a component unit of the Broward County School District, Florida, as of and for the fiscal year ended June 30, 2014, and have issued our report thereon dated September 27, 2014.

Auditor's Responsibility

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.

Other Reporting Required by *Government Auditing Standards*

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report which is dated September 27, 2014, 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 made in the preceding annual financial audit report.

Financial Condition

Section 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require that we apply appropriate procedures to determine whether or not The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, require that we apply financial condition assessment procedures for The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus. It is management's responsibility to monitor The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus's financial condition, and our financial condition assessment was

based in part on representations made by management and the review of financial information provided by same.

Transparency

Section 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we apply appropriate procedures to determine whether The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

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

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

Section 10.854(1)(e)5, Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is The Charter Schools of Excellence, Inc. #5026 Davie 2 Campus (f/k/a The Charter Schools of Excellence CSE08_10).

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 Broward County School District and is not intended to be and should not be used by anyone other than these specified parties.



Fort Lauderdale, Florida
September 27, 2014