

Innovation Charter School, Inc.

(A Component Unit of the School
Board of Broward County, Florida)

Basic Financial Statements
For the Year Ended June 30, 2016

Innovation Charter School, Inc.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Innovation Charter School, Inc.
Pompano Beach, 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 Innovation Charter School, Inc. (the "School"), a component unit of the School Board of Broward County, Florida, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 School, as of June 30, 2016 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
September 26, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Innovation Charter School, Inc.'s (the "School") financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the School's basic financial statements which immediately follow this discussion.

Financial Highlights

The following are the highlights of financial activity for the year ended June 30, 2016.

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$ 323,355 (net position).
- As of June 30, 2016, the School's governmental funds reported combined ending fund balances of \$ 239,602

Overview of the Basic Financial Statements

This discussion and analysis is 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 financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also includes required supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements: The government-wide financial statements, which consist of the statement of net position and the statement of activities, 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 financial information on all of the School's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the School's financial position is improving or deteriorating. However, as a governmental entity, the School's activities are not geared toward generating profit as are the activities of commercial entities. Other factors such as the safety at the School and quality of education must be considered in order to reasonably assess the School's overall performance.

The statement of activities presents information showing how the School's net position changed during the 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

Innovation Charter School, Inc.
Management's Discussion and Analysis
June 30, 2016

Governmental funds: Governmental funds are used to account for essentially the same functions reported 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 assessing the School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide 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 School'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 the governmental fund and governmental activities.

Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the School's adopted budget to actual results.

Government-Wide Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of financial position. The following table presents a comparative analysis of the condensed government-wide statements of net position:

Innovation Charter School, Inc.		
Net Position		
	June 30, 2016	June 30, 2015
	<u> </u>	<u> </u>
Assets:		
Current assets	\$ 269,825	\$ 554,907
Non-current assets	83,753	-
	<u> </u>	<u> </u>
Total assets	353,578	554,907
	<u> </u>	<u> </u>
Liabilities:		
Current liabilities	30,223	-
	<u> </u>	<u> </u>
Total liabilities	30,223	-
	<u> </u>	<u> </u>
Net Position:		
Net investment in capital assets	83,753	-
Unrestricted	239,602	554,907
	<u> </u>	<u> </u>
Total net position	\$ 323,355	\$ 554,907
	<u> </u>	<u> </u>

Innovation Charter School, Inc.
Management's Discussion and Analysis
June 30, 2016

The following table presents comparative information of the condensed government-wide statements of change in net position:

Innovation Charter School, Inc. Change in Net Position		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Revenues:		
General revenues	\$ 1,662,170	\$ -
Program revenues	<u>230,782</u>	<u>555,000</u>
Total revenues	<u>1,892,952</u>	<u>555,000</u>
Expenses:		
Instruction	1,120,157	-
Instructional support services	604,599	-
Non-instructional services	<u>399,748</u>	<u>93</u>
Total expenses	<u>2,124,504</u>	<u>93</u>
Change in net position	<u>\$ (231,552)</u>	<u>\$ 554,907</u>

- General revenues include State of Florida funds through the Broward County School Board. 2015-2016 was the first full year of School operations and therefore there were no general revenues in 2014-2015.
- Program revenues decreased approximately \$ 328,000 primarily due to the School receiving start up grant funding in 2014-2015.
- Expenses increased in fiscal year 2016 as it was the first year of School operations.

Financial Analysis of the School's Funds

As noted earlier, the School uses fund accounting to maintain control over resources that have been segregated for specific activities or objectives. 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.

As of the end of fiscal year 2015/2016 the School's governmental funds reported ending fund balance of \$ 239,602. The fund balance unassigned and available for spending at the School's discretion is \$ 208,007. These funds will be available for the School's future ongoing operations.

Budgetary Highlights

This year a significant investment was made in the furnishing and opening of the School. We implemented curriculum for grades K-3 that aligned with the New Florida Standards in Mathematics and English, installed technology that supported our academic efforts and provided professional development to enhance classroom management.

Capital Assets and Debt Administration

As of June 30, 2016, the School had an investment in capital assets of \$ 83,753. This amount is net of accumulated depreciation of \$ 20,650.

The School has no outstanding debt.

Economic Factors

Facts, decisions or conditions that have had a significant effect on the financial position or results of operations of the School in fiscal year 2015/16, as well as future expectations, include the following:

- The 2015/16 school year represents our first year of operations of the School. We made great efforts to operate within the school-based revenues and to utilize grant funds for the furnishing and start-up costs of the School.
- Reaching an enrollment over 400 is critical to sustained operations of the School within its school-based revenues. This is expected to occur in year 3 when the School has reached its full grade-level plan of K-5.
- Based on grant disbursement dates, the 2016/17 school year will be the last year the School receives supplemental grant income. These funds will be used to complete the furnishing and curriculum purchases for full enrollment in 2017/18.

The following items represent other important highlights:

- The addition of educational specialists afforded by Title 1 funds began in January 2016, providing critical support to students.
- Curriculum reserves are being held to allow for the appropriate curriculum replacement on a five-year cycle.
- The School expanded its space to reach a planned 32,000 square feet by school year 2017/18. The build out of this space was provided by the lessor and occupation of the first 4,000 square feet will take place in the 2016/17 school year.

Requests for Information

This financial report is designed to provide a general overview of the Innovation Charter School, Inc.'s finances for all those with an interest. If you should have any questions pertaining to the information presented in this report or would like additional information, please contact the Finance Director of Innovation Charter School, Inc. at 600 SW 3rd Street, Pompano Beach, FL 33060.

BASIC FINANCIAL STATEMENTS

Innovation Charter School, Inc.
Statement of Net Position
June 30, 2016

	Governmental Activities
Current Assets:	
Cash and cash equivalents	\$ 237,231
Receivables, net	999
Prepaid items	9,595
Deposits	<u>22,000</u>
Total current assets	<u>269,825</u>
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	<u>83,753</u>
Total assets	<u>353,578</u>
Current Liabilities:	
Accounts payable	<u>30,223</u>
Total liabilities	<u>30,223</u>
Commitments (Note 6)	-
Net Position:	
Net investment in capital assets	83,753
Unrestricted	<u>239,602</u>
Total net position	\$ <u><u>323,355</u></u>

The accompanying notes to basic financial statements are an integral part of these statements.

Innovation Charter School, Inc.
Statement of Activities
For the Year Ended June 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental</u>
		<u>Charges</u> <u>for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Activities</u> <u>Net Revenue</u> <u>(Expense) and</u> <u>Change in</u> <u>Net Position</u>
Functions/Programs:					
Instruction	\$ 1,120,157	\$ -	\$ 118,973	\$ -	\$ (1,001,184)
Exceptional programs	61,943	-	248	-	(61,695)
Instructional media services	23,574	-	-	-	(23,574)
Instructional staff training services	425	-	-	-	(425)
Instructional related technology	2,280	-	2,127	-	(153)
Board services	28,964	-	300	-	(28,664)
General administration - district	39,264	-	-	-	(39,264)
School administration	269,789	-	5,707	-	(264,082)
Fiscal services	49,860	-	-	-	(49,860)
Food services	125,735	4,107	99,320	-	(22,308)
Operation of plant	246,588	-	-	-	(246,588)
Pupil transportation services	155,925	-	-	-	(155,925)
Total governmental activities	\$ <u>2,124,504</u>	\$ <u>4,107</u>	\$ <u>226,675</u>	\$ <u>-</u>	<u>(1,893,722)</u>
General revenues:					
FTE nonspecific revenues					1,638,339
Other non-government revenues					<u>23,831</u>
					<u>1,662,170</u>
					<u>(231,552)</u>
Net position, July 1, 2015					<u>554,907</u>
Net position, June 30, 2016					\$ <u><u>323,355</u></u>

The accompanying notes to basic financial statements are an integral part of these statements.

Innovation Charter School, Inc.
 Balance Sheet - Governmental Funds
 June 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 237,231	\$ -	\$ 237,231
Receivables, net	999	-	999
Prepaid items	9,595	-	9,595
Deposits	<u>22,000</u>	<u>-</u>	<u>22,000</u>
Total assets	<u>\$ 269,825</u>	<u>\$ -</u>	<u>\$ 269,825</u>
Liabilities:			
Accounts payable	<u>\$ 30,223</u>	<u>\$ -</u>	<u>\$ 30,223</u>
Total liabilities	<u>30,223</u>	<u>-</u>	<u>30,223</u>
Commitments (Note 6)	-	-	-
Fund Balance:			
Nonspendable	31,595	-	31,595
Unassigned	<u>208,007</u>	<u>-</u>	<u>208,007</u>
Total fund balances	<u>239,602</u>	<u>-</u>	<u>239,602</u>
Total liabilities and fund balances	<u>\$ 269,825</u>	<u>\$ -</u>	<u>\$ 269,825</u>

The accompanying notes to basic financial statements are an integral part of these statements.

Innovation Charter School, Inc.
Reconciliation of the Balance Sheet - Governmental
Funds to the Statement of Net Position
June 30, 2016

Total Fund Balance - Governmental Funds \$ 239,602

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 in the governmental funds:

Cost of capital assets	104,403
Accumulated depreciation	<u>(20,650)</u>

Net Position of Governmental Activities \$ 323,355

The accompanying notes to basic financial statements are an integral part of these statements.

**Innovation Charter School, Inc.
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Revenues:			
Federal through state	\$ -	\$ 223,068	\$ 223,068
State sources	1,641,946	-	1,641,946
Other non-government revenues	23,831	4,107	27,938
	<u>1,665,777</u>	<u>227,175</u>	<u>1,892,952</u>
Total revenues			
Expenditures:			
Instruction	1,062,852	36,655	1,099,507
Exceptional programs	61,695	248	61,943
Instructional media services	23,574	-	23,574
Instructional staff training services	425	-	425
Instructional related technology	153	2,127	2,280
Board services	28,664	300	28,964
General administration - district	39,264	-	39,264
School administration	264,082	5,707	269,789
Fiscal services	49,860	-	49,860
Food services	22,308	103,427	125,735
Operation of plant	246,588	-	246,588
Pupil transportation services	155,925	-	155,925
Capital outlay	25,692	78,711	104,403
	<u>1,981,082</u>	<u>227,175</u>	<u>2,208,257</u>
Total expenditures			
Net change in fund balance	<u>(315,305)</u>	<u>-</u>	<u>(315,305)</u>
Fund Balance, July 1, 2015	<u>554,907</u>	<u>-</u>	<u>554,907</u>
Fund Balance, June 30, 2016	<u>\$ 239,602</u>	<u>\$ -</u>	<u>\$ 239,602</u>

The accompanying notes to basic financial statements are an integral part of these statements.

**Innovation Charter School, Inc.
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances -
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016**

Net Change in Fund Balances - Governmental Funds \$ (315,305)

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

The governmental funds report capital outlay as
expenditures; however, in the statement of activities
these costs are allocated over their estimated useful
lives as provision for depreciation:

Cost of capital assets	104,403
Current year provision for depreciation	<u>(20,650)</u>

Change in Net Position of Governmental Activities \$ (231,552)

The accompanying notes to basic financial statements are an integral part of these statements.

Note 1 - Organization and Operations

Reporting Entity: The Innovation Charter School, Inc. (the "School") was incorporated as a not for profit corporation on July 10, 2013 organized pursuant to Chapter 617, Florida Statutes, the Florida Not for Profit Corporation Act and Section 228.056, Florida Statutes. The governing body of the School is the Board of Directors (the "Board"), which is comprised of four members. The School's charter started July 1, 2015 and operations began August, 2015. In its initial year of operations, the School served students in kindergarten through third grade.

The School operates under a charter of the sponsoring school district, the School Board of Broward County, Florida (the "District"). The current charter is effective until June 30, 2020. The School is a component unit of the District.

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 Government Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards. The application of these criteria provide 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 with the reporting entity of the School.

Note 2 - Summary of Significant Accounting Policies

Basis of presentation: Based on the guidance provided in the American Institute of Certified Public Accountants, Audit and Accounting Guide - Not-for-Profit Organizations and provisions of Section 228.056(9), Florida Statutes, the School is presented as a governmental organization for financial statement reporting purposes.

Government-wide financial statements: The School's basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. All of the School's activities are classified as governmental activities.

In the government-wide statement of net position, the governmental activities column is reported on a full accrual, economic resource basis, which recognizes all current and noncurrent assets and all current and noncurrent liabilities. The School's net position is reported in three (3) categories: net investment in capital assets; restricted; and unrestricted.

The government-wide statement of activities reports both the gross and net cost of each of the School's functions. The net costs, by function, are supported by general revenues. The statement of activities reduces gross expenses by related program revenues. Program revenues must be directly associated with the function. Operating grants include operating specific and discretionary grants while the capital grants column reflects capital-specific grants.

Fund financial statements: The School's accounts are organized on the basis of funds. The operations of the funds are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues and expenditures.

Note 2 - Summary of Significant Accounting Policies (continued)

The School reports the following major governmental funds:

General Fund - This fund is used to account for all operating activities of the School except for those required to be accounted for in another fund.

Special Revenue Fund - This fund is used to account for federal grants and certain state grants that are legally restricted to expenditures for particular purposes.

Measurement focus and basis of accounting: Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the basic financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. Governmental funds use the current financial resources measurement focus and the government-wide statement uses the economic resources measurement focus.

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting under which revenue is recognized in the accounting period in which it becomes susceptible to accrual (i.e., when it becomes both measurable and available). Revenues susceptible to accrual include FTE nonspecific revenue, capital grant funds, operating grants and contributions and investment earnings. Intergovernmental revenues are recognized when all eligibility requirements have been met, if available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within two (2) months of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred.

Cash and cash equivalents: The School considers all demand accounts and money market funds which are not subjected to withdrawal restrictions to be cash and cash equivalents.

The School maintains its cash accounts with one financial institution. The School's accounts at this institution, at times, may exceed the federally insured limit. The School has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

Prepaid items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital assets: Capital assets purchased or acquired with an original cost of \$ 1,000 or more are capitalized at historical cost or estimated historical cost and are reported in the government-wide financial statement. Donated capital assets are valued at the estimated fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized and depreciated over the remaining useful lives of the related capital assets. Other costs incurred for repairs and maintenance are expensed as incurred.

Capital assets, which include equipment acquired with state shared revenues are reported in the government-wide financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Furniture and equipment	3-5 years
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Within the governmental funds, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported within the governmental fund financial statements.

Deferred outflows/inflows of resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School does not have any items that qualify for reporting in this category.

Unearned revenue: Unearned revenue arises when the School receives resources before it has a legal claim to them.

Net position classifications: Net position is classified in three categories. The general meaning of each is as follows:

Net investment in capital assets - consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted - consists of net position with constraints placed on their use either by: 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. There are no restricted net assets as of the year-end.

Unrestricted - indicates that portion of net position that is available to fund future operations and that do not meet the definition of "restricted" or "net investment in capital assets".

Fund Balance - The School follows the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement requires that governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

Note 2 - Summary of Significant Accounting Policies (continued)

The following classifications describe the relative strength of the spending constraints:

- *Nonspendable Fund Balance* - amounts that are not in spendable form (such as prepaid items) or are legally or contractually required to be maintained intact.
- *Restricted Fund Balance* - amounts that are constrained to specific purposes by external providers (such as grantors, creditors, etc.) or imposed by law through constitutional provisions, or by enabling legislation.
- *Committed Fund Balance* - amounts constrained to specific purposes by formal action of the Board (the highest level of decision making authority). To be reported as committed, amounts cannot be used for any other purpose unless the Board removes or changes the commitment through formal action.
- *Assigned Fund Balance* - amounts the School intends to use for a specific purpose but are neither restricted nor committed. Assignments can be made by School Management or another official or body which the Board delegated the authority at their direction.
- *Unassigned Fund Balance* - amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund.

The School uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the School would first use committed fund balance, followed by assigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

State funding (primary source of revenue): Student funding is provided by the State of Florida through the District. In accordance with the Charter Agreement, the District retains not more than 5% as an administrative fee. This funding is received on a pro rata basis over the twelve-month period and is adjusted for changes in full-time equivalent student population. After review and verification of Full-Time Equivalent ("FTE") reports and supporting documentation, the Florida Department of Education may adjust subsequent fiscal period allocations of FTE funding for prior year's errors disclosed by its review as well as to prevent the statewide allocation from exceeding the amount authorized by the State Legislature. Normally, such adjustments are reported in the year the adjustments are made.

Budget: An operating budget is adopted and maintained by the governing board for the School pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in the preparation of the financial statements.

Income taxes: The School qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of management review: Subsequent events were evaluated by management through September 26, 2016, which is the date the financial statements were available to be issued.

Note 3 - Cash and cash equivalents

At June 30, 2016, the carrying amount of the School's deposits and cash on hand totaled approximately \$ 237,000 with a bank balance of approximately \$ 302,000.

State statutes require, and it is the School's policy, that all deposits be made into, and be held by, financial institutions designated by the Treasurer of the State of Florida as qualified public depositories as defined by Chapter 280 of the Florida Statutes. This statute requires that every qualified public depository institution maintain eligible collateral to secure the public entity's funds. The minimum collateral to be pledged by an institution, the collateral eligible for pledge, and reporting requirements of the qualified public depositor to the Treasurer is defined by the statute. Collateral is pooled in a multiple qualified public depository institution pool with the ability to assess members of the pool should the need arise. The School's deposits are held in a qualified public depository. They are covered by the collateral pool, as the School as identified itself as a public entity at June 30, 2016.

Note 4 - Capital Assets

A summary of changes in governmental capital assets is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Furniture and equipment	\$ -	\$ 104,403	\$ -	\$ 104,403
Less: accumulated depreciation	-	20,650	-	20,650
	<u>\$ -</u>	<u>\$ 83,753</u>	<u>\$ -</u>	<u>\$ 83,753</u>

The provision for depreciation for the year ended June 30, 2016 amounted to \$ 20,650. The School allocated depreciation to instruction.

Note 5 - Related Party Transactions

All members of the School's Board of Directors are employees of the company from which the School leases its main facility (Note 6).

Note 6 - Commitments

Leases: The School has entered into an operating lease agreement with a related party (Note 5) for its main facility commencing on July 1, 2015 and expiring June 30, 2020. Monthly payments of \$ 22,000 are due for fiscal year 2017, increasing 3% each year until they reach approximately \$ 25,000 in the final year of the agreement. At the end of the lease term, the School has the option to extend the agreement for a period of one additional year at prevailing market rates. For the year ended June 30, 2016, the School paid \$ 242,000 in lease payments. Future payments due under this lease agreement are approximately as follows:

Year Ending June 30,		
2017	\$	272,400
2018	\$	280,800
2019	\$	289,200
2020	\$	297,600

Note 7 - Risk Management

The School is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, errors and omissions, employee health, workers' compensation and natural disasters for which the School carries commercial insurance. During the fiscal year 2016 the School did not experience any claims resulting from the risks described above.

REQUIRED SUPPLEMENTARY
INFORMATION

Innovation Charter School, Inc.
Statement of Revenues and Expenditures
Budget and Actual - General Fund
For the Year Ended June 30, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
State sources	\$ 1,630,896	\$ 1,641,946	\$ 11,050
Other non-government revenues	<u>105,960</u>	<u>23,831</u>	<u>(82,129)</u>
Total revenues	<u>1,736,856</u>	<u>1,665,777</u>	<u>(71,079)</u>
Expenditures:			
Instruction	936,533	1,062,852	(126,319)
Exceptional programs	72,506	61,695	10,811
Pupil services	29,230	-	29,230
Instructional media services	3,900	23,574	(19,674)
Instructional curriculum development	17,200	-	17,200
Instructional staff training services	5,000	425	4,575
Instructional related technology	12,400	153	12,247
Board services	30,197	28,664	1,533
General administration district	87,004	39,264	47,740
School administration	290,278	264,082	26,196
Fiscal services	57,600	49,860	7,740
Food services	-	22,308	(22,308)
Pupil transportation	156,375	155,925	450
Operation of plant	328,079	246,588	81,491
Capital outlay	<u>475,760</u>	<u>25,692</u>	<u>450,068</u>
Total expenditures	<u>2,502,062</u>	<u>1,981,082</u>	<u>520,980</u>
Net change in fund balance	<u>\$ (765,206)</u>	<u>\$ (315,305)</u>	<u>\$ 449,901</u>

Innovation Charter School, Inc.
Statement of Revenues and Expenditures
Budget and Actual - Special Revenue Fund
For the Year Ended June 30, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Federal through state	\$ 154,838	\$ 223,068	\$ 68,230
Other non-government revenues	8,352	4,107	(4,245)
	<u>163,190</u>	<u>227,175</u>	<u>63,985</u>
Expenditures:			
Instruction	-	36,655	(36,655)
Exceptional programs	-	248	(248)
Instructional related technology	-	2,127	(2,127)
Board services	-	300	(300)
School administration	-	5,707	(5,707)
Food services	150,424	103,427	46,997
Capital outlay	-	78,711	(78,711)
	<u>150,424</u>	<u>227,175</u>	<u>(76,751)</u>
Net change in fund balance	<u>\$ 12,766</u>	<u>\$ -</u>	<u>\$ (12,766)</u>

OTHER INDEPENDENT
AUDITOR'S REPORTS

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*

To the Board of Directors of
Innovation Charter School, Inc.
Pompano Beach, 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 Innovation Charter School, Inc., (the "School"), a component unit of the School Board of Broward County, Florida, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 26, 2016.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

KEEFE McCULLOUGH

Fort Lauderdale, Florida
September 26, 2016

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS

To the Board of Directors
Innovation Charter School, Inc.
Pompano Beach, Florida

Report on the Financial Statements

We have audited the financial statements of the Innovation Charter School, Inc. (the "School"), a component unit of the School Board of Broward County, Florida, as of and for the fiscal year ended June 30, 2016, and have issued our report thereon dated September 26, 2016.

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 and Chapter 10.850, Rules of the Auditor General.

Other Report

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 26, 2016, 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. This is the School's first year being audited as their operations began in July 2015.

Official Title

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 Innovation Charter School, Inc.

Financial Condition

Section 10.854(1)(e)2., Rules of the Auditor General, require 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 condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Innovation Charter School, Inc.

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. In connection with our audit, we did not have any such recommendations.

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

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, federal and other granting agencies, the Board of Directors and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
September 26, 2016