

**Innovation Charter School, Inc.**  
(A Component Unit of the School  
Board of Broward County, Florida)

Basic Financial Statements  
For the Year Ended June 30, 2017

## 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, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2017 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, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

KEEFE McCULLOUGH

Fort Lauderdale, Florida  
September 26, 2017

# 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, 2017. Please read it in conjunction with the School's basic financial statements which immediately follow this discussion.

### **Financial Highlights**

Our basic financial statements provide these insights into the results of this year's operations:

- As of June 30, 2017, the School's governmental fund balances were \$ 163,687 as compared to \$ 239,602 as of June 30, 2016.
- As of June 30, 2017, the School had net position of \$ 269,168 as compared to \$ 323,355 as of June 30, 2016.

### **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, 2017**

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**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,<br>2017            | June 30,<br>2016            |
|                                  | <u>                    </u> | <u>                    </u> |
| <b>Assets:</b>                   |                             |                             |
| Current assets                   | \$ 452,973                  | \$ 269,825                  |
| Non-current assets               | <u>105,481</u>              | <u>83,753</u>               |
| Total assets                     | <u>558,454</u>              | <u>353,578</u>              |
| <b>Liabilities:</b>              |                             |                             |
| Current liabilities              | <u>289,286</u>              | <u>30,223</u>               |
| Total liabilities                | <u>289,286</u>              | <u>30,223</u>               |
| <b>Net Position:</b>             |                             |                             |
| Net investment in capital assets | 105,481                     | 83,753                      |
| Unrestricted                     | <u>163,687</u>              | <u>239,602</u>              |
| Total net position               | <u>\$ 269,168</u>           | <u>\$ 323,355</u>           |

**Innovation Charter School, Inc.**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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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          |                           |                            |  |
|                                 | June 30,                  | June 30,                   |  |
|                                 | <u>2017</u>               | <u>2016</u>                |  |
| Revenues:                       |                           |                            |  |
| General revenues                | \$ 2,378,147              | \$ 1,662,170               |  |
| Program revenues                | <u>435,427</u>            | <u>230,782</u>             |  |
| Total revenues                  | <u>2,813,574</u>          | <u>1,892,952</u>           |  |
| Expenses:                       |                           |                            |  |
| Instruction                     | 1,583,215                 | 1,120,157                  |  |
| Instructional support services  | 772,892                   | 604,599                    |  |
| Non-instructional services      | <u>511,654</u>            | <u>399,748</u>             |  |
| Total expenses                  | <u>2,867,761</u>          | <u>2,124,504</u>           |  |
| Change in net position          | \$ <u><u>(54,187)</u></u> | \$ <u><u>(231,552)</u></u> |  |

General revenues increased from the prior year due to an increase in enrollment. Total expenses also increased for the same reason, primarily in salaries and benefits.

**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 2016/2017 the School's governmental funds reported ending fund balance of \$ 163,687. The fund balance unassigned and available for spending at the School's discretion is \$ 141,687. These funds will be available for the School's future ongoing operations.

**Budgetary Highlights**

This year a significant investment was made in furnishing the school with student, staff and operational equipment. There was also significant investment resourcing classrooms with instructional supplements and grade appropriate reading materials. We implemented Science Fusion curriculum for each grade level and additional technology in the classrooms for student use. We upgraded the technology available to instructional staff to aid them with classroom experience for students.



### **Capital Assets and Debt Administration**

As of June 30, 2017, the School had an investment in capital assets of \$ 105,481. This amount is net of accumulated depreciation of \$ 52,157.

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 2016/2017, as well as future expectations, include the following:

- The 2017/2018 school year represents our second year of operations at the School. We continued the funding of furnishing, equipment and curriculum. In 2018/2019, the focus will be improvements to the academic plan and strengthening professional development.
- Reaching enrollment over 400 remains critical to sustained operations of the School within its school-based revenues. The 2017/2018 enrollment fell just short of this goal, but is expected to hit in the 2018/2019 school year.
- The 2016/2017 school year was the completion of the start-up grants provided. Additional grants are being pursued to continue investment in the services to students.

The following items represent other important highlights:

- Title 1 funds continued to provide necessary funding for educational specialists, allowing for critical support to students.
- Curriculum reserves are being held to allow for the appropriate curriculum replacement on a five-year cycle.
- The School installed a new principal for the 2017/2018 school year, along with a new administration team, to continue to support the advancement of the School's academic goals.

### **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 3<sup>rd</sup> Street, Pompano Beach, FL 33060.

# BASIC FINANCIAL STATEMENTS

**Innovation Charter School, Inc.**  
**Statement of Net Position**  
**June 30, 2017**

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|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <b>Current Assets:</b>                          |                                    |
| Cash and cash equivalents                       | \$ 429,974                         |
| Receivables, net                                | 999                                |
| Deposits  | <u>22,000</u>                      |
| Total current assets                            | <u>452,973</u>                     |
| <b>Noncurrent Assets:</b>                       |                                    |
| Capital assets, net of accumulated depreciation | <u>105,481</u>                     |
| Total assets                                    | <u>558,454</u>                     |
| <b>Current Liabilities:</b>                     |                                    |
| Accounts payable                                | 111,310                            |
| Due to related party                            | 103,000                            |
| Accrued liabilities                             | <u>74,976</u>                      |
| Total liabilities                               | <u>289,286</u>                     |
| <b>Commitments (Note 6)</b>                     | -                                  |
| <b>Net Position:</b>                            |                                    |
| Net investment in capital assets                | 105,481                            |
| Unrestricted                                    | <u>163,687</u>                     |
| Total net position                              | <u>\$ 269,168</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, 2017**

|                                   | <u>Expenses</u>     | <u>Program Revenues</u>             |   |   | <u>Governmental</u>  |
|-----------------------------------|---------------------|-------------------------------------|---|---|--|
|                                   |                     | <u>Charges<br/>for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> | <u>Activities<br/>Net Revenue<br/>(Expense) and<br/>Change in<br/>Net Position</u> |
| <b>Functions/Programs:</b>        |                     |                                     |   |   |  |
| Instruction                       | \$ 1,583,215        | \$ -                                | \$ 193,291  | \$ -  | \$ (1,389,924)   |
| Exceptional programs              | 134,431             | -                                   | -   | -   | (134,431)  |
| Instructional related technology  | 57,518              | -                                   | 57,518  | -   | -  |
| Board services                    | 25,187              | -                                   | -   | -   | (25,187)   |
| General administration - district | 60,986              | -                                   | 9,936   | -   | (51,050)   |
| School administration             | 261,743             | -                                   | 4,098   | -   | (257,645)  |
| Fiscal services                   | 65,672              | -                                   | -   | -   | (65,672)   |
| Food services                     | 173,111             | 3,431                               | 167,153   | -   | (2,527)  |
| Operation of plant                | 319,200             | -                                   | -   | -   | (319,200)  |
| Pupil transportation services     | 186,698             | -                                   | -   | -   | (186,698)  |
| <br>                              |                     |                                     |   |   |  |
| Total governmental activities     | \$ <u>2,867,761</u> | \$ <u>3,431</u>                     | \$ <u>431,996</u>                                 | \$ <u>-</u>                                     | \$ <u>(2,432,334)</u>  |
| <br>                              |                     |                                     |   |   |  |
| General revenues:                 |                     |                                     |   |   |  |
| Grants and entitlements           |                     |                                     |   |   | 2,311,315  |
| Other non-government revenues     |                     |                                     |   |   | <u>66,832</u>  |
| <br>                              |                     |                                     |   |   |  |
| Total general revenues            |                     |                                     |   |   | <u>2,378,147</u>   |
| <br>                              |                     |                                     |   |   |  |
| Change in net position            |                     |                                     |   |   | (54,187)   |
| <br>                              |                     |                                     |   |   |  |
| Net position, July 1, 2016        |                     |                                     |   |   | <u>323,355</u>   |
| <br>                              |                     |                                     |   |   |  |
| Net position, June 30, 2017       |                     |                                     |   |   | \$ <u><u>269,168</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, 2017

|  | <u>General<br/>Fund</u> | <u>Special<br/>Revenue<br/>Fund</u> | <u>Total</u>      |
|--|-------------------------|-------------------------------------|-------------------|
| <b>Assets:</b>                         |                         |                                     |                   |
| Cash and cash equivalents              | \$ 429,974              | \$ -                                | \$ 429,974        |
| Receivables, net                       | 999                     | -                                   | 999               |
| Deposits                               | <u>22,000</u>           | <u>-</u>                            | <u>22,000</u>     |
| Total assets                           | <u>\$ 452,973</u>       | <u>\$ -</u>                         | <u>\$ 452,973</u> |
| <b>Liabilities:</b>                    |                         |                                     |                   |
| Accounts payable                       | \$ 111,310              | \$ -                                | \$ 111,310        |
| Due to related party                   | 103,000                 | -                                   | 103,000           |
| Accrued liabilities                    | <u>74,976</u>           | <u>-</u>                            | <u>74,976</u>     |
| Total liabilities                      | <u>289,286</u>          | <u>-</u>                            | <u>289,286</u>    |
| <b>Commitments (Note 6)</b>            | -                       | -                                   | -                 |
| <b>Fund Balance:</b>                   |                         |                                     |                   |
| Nonspendable                           | 22,000                  | -                                   | 22,000            |
| Unassigned                             | <u>141,687</u>          | <u>-</u>                            | <u>141,687</u>    |
| Total fund balances                    | <u>163,687</u>          | <u>-</u>                            | <u>163,687</u>    |
| Total liabilities and<br>fund balances | <u>\$ 452,973</u>       | <u>\$ -</u>                         | <u>\$ 452,973</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, 2017**

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**Total Fund Balance - Governmental Funds** \$ 163,687

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   | 157,638         |
| Accumulated depreciation | <u>(52,157)</u> |

**Net Position of Governmental Activities** \$ 269,168

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, 2017**

|                                    | <u>General<br/>Fund</u> | <u>Special<br/>Revenue<br/>Fund</u> | <u>Total</u>      |
|------------------------------------|-------------------------|-------------------------------------|-------------------|
| <b>Revenues:</b>                   |                         |                                     |                   |
| Federal through state              | \$ -                    | \$ 431,996                          | \$ 431,996        |
| State sources                      | 2,311,315               | -                                   | 2,311,315         |
| Other non-government revenues      | 66,832                  | 3,431                               | 70,263            |
|                                    | <u>2,378,147</u>        | <u>435,427</u>                      | <u>2,813,574</u>  |
| <b>Total revenues</b>              |                         |                                     |                   |
|                                    | <u>2,378,147</u>        | <u>435,427</u>                      | <u>2,813,574</u>  |
| <b>Expenditures:</b>               |                         |                                     |                   |
| Instruction                        | 1,415,183               | 136,525                             | 1,551,708         |
| Exceptional programs               | 120,964                 | 13,467                              | 134,431           |
| Instructional related technology   | -                       | 57,518                              | 57,518            |
| Board services                     | 25,187                  | -                                   | 25,187            |
| General administration - district  | 60,986                  | -                                   | 60,986            |
| School administration              | 257,645                 | 4,098                               | 261,743           |
| Fiscal services                    | 65,672                  | -                                   | 65,672            |
| Food services                      | 2,527                   | 170,584                             | 173,111           |
| Operation of plant                 | 319,200                 | -                                   | 319,200           |
| Pupil transportation services      | 186,698                 | -                                   | 186,698           |
| Capital outlay                     | -                       | 53,235                              | 53,235            |
|                                    | <u>2,454,062</u>        | <u>435,427</u>                      | <u>2,889,489</u>  |
| <b>Total expenditures</b>          |                         |                                     |                   |
|                                    | <u>2,454,062</u>        | <u>435,427</u>                      | <u>2,889,489</u>  |
| <b>Net change in fund balance</b>  | <u>(75,915)</u>         | <u>-</u>                            | <u>(75,915)</u>   |
| <b>Fund Balance, July 1, 2016</b>  | <u>239,602</u>          | <u>-</u>                            | <u>239,602</u>    |
| <b>Fund Balance, June 30, 2017</b> | <u>\$ 163,687</u>       | <u>\$ -</u>                         | <u>\$ 163,687</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, 2017**

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**Net Change in Fund Balances - Governmental Funds** \$ (75,915)

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                  | 53,235          |
| Current year provision for depreciation | <u>(31,507)</u> |

**Change in Net Position of Governmental Activities** \$ (54,187)

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 second year of operations, the School served students in kindergarten through fourth 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 |
|-------------------------|-----------|

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, 2017, which is the date the financial statements were available to be issued.

**Note 3 - Cash and cash equivalents**

At June 30, 2017, the carrying amount of the School's deposits and cash on hand totaled approximately \$ 430,000 with a bank balance of approximately \$ 436,000.

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, 2017.

**Note 4 - Capital Assets**

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

|                                | Balance<br>July 1,<br>2016 | Additions        | Deletions   | Balance<br>June 30,<br>2017 |
|--------------------------------|----------------------------|------------------|-------------|-----------------------------|
| Furniture and equipment        | \$ 104,403                 | \$ 53,235        | \$ -        | \$ 157,638                  |
| Less: accumulated depreciation | <u>20,650</u>              | <u>31,507</u>    | <u>-</u>    | <u>52,157</u>               |
|                                | <u>\$ 83,753</u>           | <u>\$ 21,728</u> | <u>\$ -</u> | <u>\$ 105,481</u>           |

The provision for depreciation for the year ended June 30, 2017 amounted to \$ 31,507. 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). In addition, the School received a temporary advance of \$ 103,000 from the company which was subsequently paid back in July 2017.

**Note 6 - Commitments**

**Leases:** The School 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. During the year, this lease was amended to increase the space available for the School's operations. The amended lease contained monthly payments of \$ 26,600 during 2017. These payments increase to \$ 35,500 for fiscal year 2018, and increase 3% each year until they reach \$ 37,650 in the final year of the agreement. At the end of the initial 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, 2017, the School paid \$ 319,200 related to this lease agreement. Future payments are due as follows:

| Year Ending<br>June 30, |    |         |
|-------------------------|----|---------|
| 2018                    | \$ | 426,000 |
| 2019                    | \$ | 439,200 |
| 2020                    | \$ | 451,800 |

**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 2017, 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, 2017**

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|                                       | <u>Original<br/>and Final<br/>Budget</u> | <u>Actual</u>      | <u>Variance</u>  |
|---------------------------------------|--|--------------------|------------------|
| <b>Revenues:</b>                      |  |                    |                  |
| State sources                         | \$ 2,359,528                             | \$ 2,311,315       | \$ (48,213)      |
| Other non-government revenues         | <u>400,000</u>                           | <u>66,832</u>      | <u>(333,168)</u> |
| Total revenues                        | <u>2,759,528</u>                         | <u>2,378,147</u>   | <u>(381,381)</u> |
| <b>Expenditures:</b>                  |  |                    |                  |
| Instruction                           | 1,366,691                                | 1,415,183          | (48,492)         |
| Exceptional programs                  | 125,789                                  | 120,964            | 4,825            |
| Pupil services                        | 9,217                                    | -                  | 9,217            |
| Instructional media services          | 3,488                                    | -                  | 3,488            |
| Instructional curriculum development  | 81,712                                   | -                  | 81,712           |
| Instructional staff training services | 7,500                                    | -                  | 7,500            |
| Instructional related technology      | 7,200                                    | -                  | 7,200            |
| Board services                        | 7,750                                    | 25,187             | (17,437)         |
| General administration district       | 89,376                                   | 60,986             | 28,390           |
| School administration                 | 519,285                                  | 257,645            | 261,640          |
| Fiscal services                       | 59,600                                   | 65,672             | (6,072)          |
| Food services                         | -  | 2,527              | (2,527)          |
| Operation of plant                    | 401,043                                  | 319,200            | 81,843           |
| Pupil transportation                  | 207,000                                  | 186,698            | 20,302           |
| Capital outlay                        | <u>9,062</u>                             | <u>-</u>           | <u>9,062</u>     |
| Total expenditures                    | <u>2,894,713</u>                         | <u>2,454,062</u>   | <u>440,651</u>   |
| Net change in fund balance            | <u>\$ (135,185)</u>                      | <u>\$ (75,915)</u> | <u>\$ 59,270</u> |



**Innovation Charter School, Inc.**  
**Statement of Revenues and Expenditures**  
**Budget and Actual - Special Revenue Fund**  
**For the Year Ended June 30, 2017**

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|                                  | <u>Original<br/>and Final<br/>Budget</u> | <u>Actual</u>  | <u>Variance</u>    |
|----------------------------------|--|----------------|--------------------|
| <b>Revenues:</b>                 |  |                |                    |
| Federal through state            | \$ 289,718                               | \$ 431,996     | \$ 142,278         |
| Other non-government revenues    |  | 3,431          | 3,431              |
|                                  | <u>289,718</u>                           | <u>435,427</u> | <u>145,709</u>     |
| <b>Expenditures:</b>             |  |                |                    |
| Instruction                      | -  | 136,525        | (136,525)          |
| Exceptional programs             | -  | 13,467         | (13,467)           |
| Instructional related technology | -  | 57,518         | (57,518)           |
| School administration            | -  | 4,098          | (4,098)            |
| Food services                    | 194,845                                  | 170,584        | 24,261             |
| Capital outlay                   | -  | 53,235         | (53,235)           |
|                                  | <u>194,845</u>                           | <u>435,427</u> | <u>(240,582)</u>   |
| Net change in fund balance       | \$ <u>94,873</u>                         | \$ <u>-</u>    | \$ <u>(94,873)</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  
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, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 26, 2017.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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, 2017

## 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 year ended June 30, 2017, and have issued our report thereon dated September 26, 2017.

### **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, 2017, should be considered in conjunction with this management letter.

### **Prior Audit Findings**

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding audit report.

### **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.

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, 2017