

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Financial Statements  
with Independent Auditor's Reports Thereon**

**June 30, 2017**



**M<sup>C</sup>CRADY | HESS**  
CERTIFIED PUBLIC ACCOUNTANTS

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**DISCOVERY ACADEMY OF LAKE ALFRED, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Management of Discovery Academy of Lake Alfred, Inc. (the "School") offers the following narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017. Readers are encouraged to use this information in conjunction with information furnished in the School's financial statements. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplemental information.

**FINANCIAL HIGHLIGHTS**

- ❖ The School's net position at June 30, 2017 is approximately \$1.7 million.
- ❖ For the fiscal year ended June 30, 2017, the School's expenses exceeded revenues by approximately \$787,000.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the understanding of the financial condition of School.

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide a broad overview of the School's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status as a whole.

The two government-wide statements report the School's net position and the current year changes. The net position is the difference between the School's total assets and total liabilities. Measuring the net position is one way to evaluate the School's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include the School's basic services. The business-type activities are those services that the School charges for not directly related to the School's mission. For the year ended June 30, 2017, the School had no business-type activities or component units.

## **Fund Financial Statements**

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. All of the operations of the School are presented in governmental funds only.

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The School's basic services are accounted for in governmental funds. These funds focus on how assets that can readily be converted into cash flow in and out, and what monies are left at year-end will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting. This method also has a current financial resources focus. As a result, the governmental fund financial statements provide a detailed short-term view of the financial resources available to finance the School's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The School adopts an annual budget for its general fund and special revenue fund as required by the Florida Statutes. The budget is legally adopted by management of the School and its Board. Budgetary comparison schedules have been included as part of the required supplementary information. The budgetary comparison schedules show four columns: 1) the original budget as adopted by the board, 2) the final budget as amended by the board, 3) the actual resources, charges and ending balances in the general fund, and 4) the variance between the final budget and the actual resources and charges.

## **Notes to Financial Statements**

The notes to financial statements provide additional information that is essential to the full understanding of the information reported in the government-wide and fund financial statements. The notes to the financial statements start on page 16 of this report.

## **Other Reports**

This report also includes the information required by the U.S. Office of Management and Budget Uniform Guidance: Schedule of Expenditures of Federal Awards, Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required by Uniform Guidance and Schedule of Findings and Questioned Costs. In addition, it also includes the Independent Auditor's Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850, Audits of Charter Schools and Similar Entities.

## GOVERNMENT-WIDE ANALYSIS OF THE SCHOOL

### Net Position

The School's net position as of June 30, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
<b>Assets:</b>			
Current assets	\$ 2,166,828	\$ 2,211,175	\$ (44,347)
Other assets	-	122,906	(122,906)
Other non-current assets	593,185	593,185	-
Capital assets, net	<u>10,673,962</u>	<u>5,808,186</u>	<u>4,865,776</u>
Total assets	13,433,975	8,735,452	4,698,523
Deferred outflow of resources	<u>1,644,444</u>	<u>860,386</u>	<u>784,058</u>
<b>Liabilities:</b>			
Current liabilities	1,053,586	1,029,163	24,423
Long-term liabilities	<u>11,768,641</u>	<u>5,331,429</u>	<u>6,437,212</u>
Total liabilities	12,822,227	6,360,592	6,461,635
Deferred inflow of resources	<u>547,292</u>	<u>739,180</u>	<u>(191,888)</u>
<b>Net Position:</b>			
Investment in capital assets, Net of related debt	2,212,319	3,077,242	(864,923)
Restricted for:			
Food services	214,408	238,968	(24,560)
Unrestricted	<u>(717,827)</u>	<u>(820,144)</u>	<u>102,317</u>
Total net position	<u>\$ 1,708,900</u>	<u>\$ 2,496,066</u>	<u>\$ (787,166)</u>

The change in current assets is due to a decrease in cash balances at year end as a result of the current year construction in progress. Capital assets and long term debt increased due the construction of the new building on the land.

Certain reclassifications have been made to the 2016 reported amounts to conform to the 2017 presentation.

## Change in Net Position

The School's total expenses exceeded revenues by approximately \$787,000 in fiscal 2017—see table below.

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
<b>Revenues:</b>			
Federal sources	\$ 965,877	\$ 835,972	\$ 129,905
State and local sources	6,068,522	6,562,858	(494,336)
Contributions and other revenues	684,300	390,236	294,064
Total revenues	<u>7,718,699</u>	<u>7,789,066</u>	<u>(70,367)</u>
<b>Expenses:</b>			
Instruction	3,430,343	3,437,006	(6,663)
Pupil personnel services	804,424	857,343	(52,919)
Instructional media services	97,683	96,544	1,139
Instructional and curriculum development	-	15,075	(15,075)
Instructional staff training	140,375	139,516	859
Board	42,793	49,800	(7,007)
General administration	77,111	77,583	(472)
School administration	855,829	965,259	(109,430)
Facilities acquisition and construction	207,564	-	207,564
Fiscal services	63,441	61,708	1,733
Food services	816,802	631,032	185,770
Central services	64,576	44,270	20,306
Pupil transportation	961,702	813,737	147,965
Operation of plant	396,486	434,497	(38,011)
Interest	169,586	25,192	144,394
Transfer to related party	377,150	-	377,105
Total expenses	<u>8,505,865</u>	<u>7,648,562</u>	<u>857,303</u>
Change in net position	<u>\$ (787,166)</u>	<u>\$ 140,504</u>	<u>\$ 927,670</u>

The change in state and local sources is primarily due to the increase in revenue allocation per student. Food services and pupil transportation increased due to the school providing these services to the related party.

## FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The focus of the School's governmental funds is to provide information on near term inflows, outflows, and balances of usable resources. Such information is useful in assessing the School's financing requirements. Specifically, unrestricted fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the School completed the year, its governmental funds reported a combined fund balance of \$1,487,952.

## General and Special Revenue Funds Budgetary Highlights

During the fiscal year, the School amended its budgets twice. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget once exact information is available; 2) amendments made to recognize changes in funding amounts and 3) changes in appropriations that become necessary to maintain services.

In the general fund, actual revenues were less than budgeted amounts by approximately \$41,000. Expenditures were approximately \$103,000 more than budgeted amounts.

In the special revenue fund, total actual revenues exceeded budgeted amounts by approximately \$206,000. Expenditures were approximately \$322,000 less than budgeted amounts.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal 2017, the School invested approximately \$5.8 million in capital assets, net of accumulated depreciation of approximately \$1.3 million.

As of June 30, 2017 and 2016 information regarding the Schools capital assets is as follows:

	Governmental Activities		Increase (Decrease)
	2017	2016	
Furniture, fixtures, and equipment	\$ 716,604	\$ 546,608	\$ 169,996
Vehicles	2,250,504	2,250,504	-
Land	1,047,361	1,047,361	-
Building	7,346,167	-	7,346,167
Construction in progress	865,848	3,303,093	(2,437,245)
Total capital assets	\$ <u>12,226,484</u>	\$ <u>7,147,566</u>	\$ <u>5,078,918</u>

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

- Furniture and fixtures - \$197,346
- Construction in progress - \$865,848
- Buildings - \$7,346,167

More detailed information about the School's capital assets is presented in Note 5 to the financial statements.

## **Long-Term Debt**

As of June 30, 2017, the School has approximately \$8,462,000 notes payable outstanding. For more detailed information about the School's long-term liabilities, see Note 6 to the financial statements.

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

Amounts available for appropriation in the general fund are approximately \$6.78 million, a increase of approximately \$179,000 from 2017 actual amount exclusive of revenues from internal funds. The change is due to an increase in Florida Education Finance Program funding.

Budgeted expenditures in the general fund are approximately \$6.40 million, a decrease of approximately \$151,000 from the 2017 actual amount exclusive of expenditures from internal funds.

If these estimates are realized, the School's general fund balance is expected to increase by the fiscal year ending June 30, 2018.

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

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 1000 North Buena Vista Drive, Lake Alfred, Florida 33850.





**M<sup>c</sup>CRADY | HESS**  
CERTIFIED PUBLIC ACCOUNTANTS

## **Independent Auditor's Report**

To the Board of Directors of Discovery Academy of Lake Alfred, Inc.  
a Charter School and Component Unit of the District  
School Board of Polk County, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Discovery Academy of Lake Alfred, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the 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, budgetary comparison information and pension liability on pages 1 - 6 and 39 - 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 43 is presented for purposes of additional analysis as required by U.S. Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

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

*McCRA DY HESS*

Orlando, Florida  
September 26, 2017

1000 Legion Place, Suite 701 ■ Orlando, FL 32801  
Office 407-478-4020 ■ Fax 407-894-2094 ■ [cpa@mccradyhess.com](mailto:cpa@mccradyhess.com) ■ [www.mccradyhess.com](http://www.mccradyhess.com)

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Statement of Net Position**

**June 30, 2017**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 369,671
Investments	1,678,524
Due from other agencies	72,903
Other current assets	45,730
Capital assets:	
Furniture, fixtures and equipment	716,604
Vehicles	2,250,504
Land	1,047,361
Building	7,346,167
Construction in progress	865,848
Less accumulated depreciation	<u>(1,552,522)</u>
Total capital assets, net	<u>10,673,962</u>
Due from related party	<u>593,185</u>
Total assets	<u>13,433,975</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	
Amount deferred on pension liability	<u>1,644,444</u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	407,625
Due to related party	271,251
Compensated absences payable	374,710
Long-term liabilities:	
Portion due or payable within one year:	
Notes payable	435,091
Portion due or payable after one year:	
Notes payable	8,026,552
Pension liability	<u>3,306,998</u>
Total liabilities	<u>12,822,227</u>
<b>DEFERRED INFLOW OF RESOURCES</b>	
Amount deferred on pension liability	<u>547,292</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	2,212,319
Restricted for:	
Food services	214,408
Unrestricted	<u>(717,827)</u>
Total net position	<u>\$ 1,708,900</u>

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

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Statement of Activities**

**For the Year Ended June 30, 2017**

	<u>Program Specific Revenues</u>				<u>Net (Expenses) Revenues and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
	Governmental Activities:					
Instruction	\$ 3,430,343	\$ -	\$ 53,899	\$ -	\$ (3,376,444)	\$ (3,376,444)
Pupil personnel services	804,424	-	141,959	-	(662,465)	(662,465)
Instructional media services	97,683	-	-	-	(97,683)	(97,683)
Instructional staff training	140,375	-	127,794	-	(12,581)	(12,581)
Board	42,793	-	-	-	(42,793)	(42,793)
General administration	77,111	-	-	-	(77,111)	(77,111)
School administration	855,829	-	-	-	(855,829)	(855,829)
Facilities acquisition and construction	207,564	-	-	-	(207,564)	(207,564)
Fiscal services	63,441	-	-	-	(63,441)	(63,441)
Food services	816,802	148,538	642,225	-	(26,039)	(26,039)
Central services	64,576	-	-	-	(64,576)	(64,576)
Pupil transportation	961,702	91,246	-	-	(870,456)	(870,456)
Operation of plant	396,486	-	-	-	(396,486)	(396,486)
Interest	169,586	-	-	-	(169,586)	(169,586)
Transfers to related party	377,150	-	-	-	(377,150)	(377,150)
<b>Total primary government</b>	<b>\$ 8,505,865</b>	<b>\$ 239,784</b>	<b>\$ 965,877</b>	<b>\$ -</b>	<b>(7,300,204)</b>	<b>(7,300,204)</b>
General revenues:						
State and local sources					6,068,522	6,068,522
Contributions and other revenues					444,516	444,516
<b>Total general revenues</b>					<b>6,513,038</b>	<b>6,513,038</b>
Change in net position					(787,166)	(787,166)
Net position at beginning of year					2,496,066	2,496,066
Net position at end of year					<b>\$ 1,708,900</b>	<b>\$ 1,708,900</b>

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

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Balance Sheet - Governmental Funds**

**June 30, 2017**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total Governmental Funds</b>
	<hr/>	<hr/>	<hr/>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 216,290	\$ 153,381	\$ 369,671
Investments	1,678,524	-	1,678,524
Due from other agencies	72,903	-	72,903
Other current assets	43,613	2,117	45,730
Due from general fund	-	68,778	68,778
	<hr/>	<hr/>	<hr/>
Total assets	<b>\$ 2,011,330</b>	<b>\$ 224,276</b>	<b>\$ 2,235,606</b>
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 397,757	\$ 9,868	\$ 407,625
Due to related party	271,251	-	271,251
Due to special revenue fund	68,778	-	68,778
	<hr/>	<hr/>	<hr/>
Total liabilities	<b>737,786</b>	<b>9,868</b>	<b>747,654</b>
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES</b>			
Nonspendable:			
Other current assets	43,613	-	43,613
Restricted:			
Food services	-	214,408	214,408
Spendable:			
Unassigned	1,229,931	-	1,229,931
	<hr/>	<hr/>	<hr/>
Total fund balances	<b>1,273,544</b>	<b>214,408</b>	<b>1,487,952</b>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<b>\$ 2,011,330</b>	<b>\$ 224,276</b>	<b>\$ 2,235,606</b>
	<hr/>	<hr/>	<hr/>

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

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position**

**June 30, 2017**

**Total fund balances - governmental funds** \$ 1,487,952

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the capital assets is \$12,226,484 and the accumulated depreciation is \$1,552,522. 10,673,962

Due from related party are not due and receivable in the current period and, therefore, are not reported as assets in the governmental funds. Long-term receivables at the end of the period consist of:

Due from related party 593,185

Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (374,710)

Long-term liabilities, including notes payable, are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consisted of:

Notes payable (8,461,643)

Pension liability (3,306,998)

Deferred amounts are reported in the Statement of Net Position as deferred outflow or deferred inflow of resources but are not reported in the funds. 1,097,152

**Total net position - governmental activities** \$ 1,708,900

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

DISCOVERY ACADEMY OF LAKE ALFRED, INC.

A Charter School and Component Unit of the  
District School Board of Polk County, Florida

Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds

For the Year Ended June 30, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
<b>REVENUES</b>					
Federal sources passed through					
local school district	\$ -	\$ 965,877	\$ -	\$ -	\$ 965,877
State and local sources	6,068,522	-	-	-	6,068,522
Contributions and other revenue	535,762	148,538	-	-	684,300
Total revenues	6,604,284	1,114,415	-	-	7,718,699
<b>EXPENDITURES</b>					
Current:					
Instruction	3,243,840	53,899	-	-	3,297,739
Pupil personnel services	661,688	141,959	-	-	803,647
Instructional media services	96,652	-	-	-	96,652
Instructional staff training	12,581	127,794	-	-	140,375
Board	42,793	-	-	-	42,793
General administration	77,111	-	-	-	77,111
School administration	840,249	-	-	-	840,249
Facilities acquisition and construction	84,658	-	-	-	84,658
Fiscal services	63,441	-	-	-	63,441
Food services	-	815,323	-	-	815,323
Central services	60,560	-	-	-	60,560
Pupil transportation	778,372	-	-	-	778,372
Operation of plant	389,534	-	-	-	389,534
Debt service:					
Principal	-	-	-	130,678	130,678
Interest	-	-	-	169,586	169,586
Capital Outlay	-	-	5,106,268	-	5,106,268
Total expenditures	6,351,479	1,138,975	5,106,268	300,264	12,896,986
Excess (deficiency) of revenues over expenditures	252,805	(24,560)	(5,106,268)	(300,264)	(5,178,287)
<b>OTHER FINANCIAL SOURCES (USES)</b>					
Proceeds from issuance of debt	5,861,380	-	-	-	5,861,380
Operating transfer in	-	-	5,106,268	300,264	5,406,532
Operating transfer out	(5,406,532)	-	-	-	(5,406,532)
Transfer out to related party	(377,150)	-	-	-	(377,150)
Total other financial sources (uses)	77,698	-	5,106,268	300,264	5,484,230
Net changes in fund balances	330,503	(24,560)	-	-	305,943
Fund balances at beginning of year	1,536,229	238,968	-	-	1,775,197
Adjustment to beginning fund balance	(593,188)	-	-	-	(593,188)
Fund balances at end of year	\$ 1,273,544	\$ 214,408	\$ -	\$ -	\$ 1,487,952

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



**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds  
to the Statement of Activities**

**For the Year Ended June 30, 2017**

**Net changes in fund balances - total governmental funds** \$ 305,943

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$5,106,268) exceeds depreciation expense (\$239,893) in the current period. 4,866,375

Loss on disposal of assets is reported in the statement of activities, whereas no expense is reported in the governmental funds. (599)

Governmental funds report noncurrent assets paid as expenditures. However, in the statement of net position, the cost of those assets is expensed when disposed of. This is the amount written off in the current period. (122,906)

Compensated absences included in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (15,757)

Proceeds from issuance of long-term debt are reported as an other financial source in the governmental funds. However, in the statement of net position, the amount of funds borrowed is reported as an increase in long-term debt liabilities. (5,861,380)

Principal payments on long-term liabilities are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position. 130,678

In the Statement of Activities, some revenues and expenses are recognized that do not provide current financial resources and are not recognized in the governmental funds, such as deferred inflow and outflow of resources. (89,520)

**Change in net position of governmental activities** \$ (787,166)

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

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to Financial Statements**

**For the Year Ended June 30, 2017**

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

**Organization**

Discovery Academy of Lake Alfred, Inc. (the "School") is a not-for-profit corporation organized pursuant to chapter 617, Florida Statutes and the Florida Not-for-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors (the "Board"), which is composed of five members. Effective July 1, 2001, the School converted from a public school to a charter school.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Polk County, Florida, (the "School Board"). The School is considered a component unit of the School Board of Polk County, Florida and meets the definition of a governmental entity under the Governmental Accounting Standards Board ("GASB").

**Charter Contract**

The current charter expires June 30, 2018 and may be renewed for a maximum of an additional fifteen years by mutual written agreement between the School and the School Board. Upon the expiration of the charter, the School Board may elect not to renew the charter under grounds specified in the charter. In this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. However, the School Board may terminate the current charter at any time if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the School Board.

**Basis of Presentation**

Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – *Audits for States and Local Governments* and provisions in the Florida Statutes, the School is considered a governmental organization for financial statement reporting purposes. The School is required by its agreement with the School Board to use the governmental reporting model and follow the fund and accounting structure provided in the "Financial and Program Cost Accounting and Reporting for Florida Schools – The Red Book" issued by the Florida Department of Education ("FDOE").

**Government-wide Financial Statements**

The government-wide financial statements provide both short-term and long-term information about the School in a manner similar to those of a private-sector business. The statement of net position and statement of activities are designed to provide financial information as a whole about the School on an accrual basis of accounting. The statement of net position provides information about the School's financial position, its assets and its liabilities, using an economic resources measurement focus.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

The statement of activities presents a comparison between direct expenses and program revenue for each function or program of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function, therefore, are clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of goods and services offered by the program and grants and contributions that are restricted for meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

**Fund Financial Statements**

The governmental fund financial statements report detailed information about the School's most significant funds, not the School as a whole. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance related requirements. Certain funds received are established by law while others are created by grant agreements. The following are the individual governmental funds that are reported in these fund financial statements:

- General Fund – the School's primary operating fund that accounts for all financial resources of the school, except those that are required to be accounted for in another fund.
- Special Revenue Fund – to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for a specific purpose.
- Debt Service Fund – to account for the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs.
- Capital Projects Fund – to account for all resources for the acquisition of capital items by School purchased with capital outlay funds.

For the purpose of these statements, the general, special revenue and capital projects funds are considered major funds. The debt service fund is reported as an other governmental fund.

**Basis of Accounting**

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

The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses/expenditures are recognized when a liability is incurred, regardless of the timing the related cash flows take place.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

The governmental fund financial statements are reported using the modified accrual basis of accounting. Under this method, revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectable within a current period. The School considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisition of capital leases are reported as other financing sources.

**Budgetary Basis Accounting**

Budgets are prepared using the modified accrual basis of accounting and the governing board must approve all budgets and amendments. During the fiscal year, expenditures were controlled at the object level. Budgets may be amended by resolution of the Board prior to the date of the annual report.

**Use of Estimates**

In preparing the financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

**Cash and Cash Equivalents and Investments**

The School's cash and cash equivalents consist primarily of demand deposits with financial institutions.

As State of Florida Statutes and the School's policy require, all deposits be made into and 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 the institution, the collateral eligible for pledge, and reporting requirements of the qualified public depositor to the treasurer is defined by 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 has identified itself as a public entity at June 30, 2017.

**Interfund Receivables and Payables**

Activities between the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. The special revenue fund has recorded total receivables of approximately \$69,000 which relates to amounts paid by the special revenue fund on behalf of the general fund.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

**Interfund Transfers**

The School reports its debt services funds expenditures in the other governmental finds. For the year ended June 30, 2017, the general fund transferred approximately \$5,106,000 to the capital projects fund and \$384,000 to the other governmental funds for the current year capital outlay and debt service payments, respectively.

**Capital Assets and Depreciation**

The School's capital assets with useful lives of more than one year are stated at historical cost and reported in the statement of net position in the government-wide financial statements. Donated capital assets are recorded at their estimated fair value on the date donated. The School capitalizes assets with a cost of \$1,000 or more. Expenditures of normal maintenance and repair that do not add to the assets value or extend the useful lives are not capitalized. Depreciation is computed using the straight-line method. Estimated useful lives of the assets are as follows:

	<u>Years</u>
Furniture, fixtures, and equipment	3 – 5
Vehicles	10

**Compensated Absences**

Compensated absences (i.e. paid absences for employee vacation leave and sick leave) are recorded as expenditures in the governmental funds when leave is used or when accrued as payable to employees entitled to cash payment in lieu of taking leave. In the government-wide financial statements, compensated absences are recorded as an expense when earned by the employee.

**Pensions**

In the government-wide statement of net position, liabilities are recognized for the School's proportionate share of each pension plan's net pension liability. The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and additions to/deductions from the FRS's and the HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The School's retirement plans and related amounts are described in Note 7.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

**Net Position and Fund Balance Classifications**

*Government-wide financial statements*

Net position is classified and reported in three components:

- Investment in capital assets, net of related debt – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.
- Restricted – consists of amounts with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments.
- Unrestricted – all other amounts that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Fund financial statements*

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned). All nonspendable fund balances at year end relate to assets that are in nonspendable form.
- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

This statement also clarifies the definition of the Special Revenue Fund to denote it may be used to account for the proceeds of specific revenue sources (other than trusts for individual, private organizations or other governmental agencies or for major capital projects) that are legally restricted to expenditures for specified purposes.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

**Order of Fund Balance Spending Policy**

The School's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Any remaining fund balances not included in the general funds are classified as restricted fund balance. It is possible for the amounts not included in the general fund to be classified as restricted fund balance. It is possible for the amounts not included in the general fund to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position reports 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 has one item that qualifies for reporting in this category which is the deferred amount of pension reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position reports 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 and so will not be recognized as an inflow of resources (revenue) until that time. The School has one item that qualifies for reporting in this category which is the deferred amount of pension reported in the government-wide statement of net position. A deferred amount of pension results from the difference in the expected and actual amounts of experience, earnings and contributions. This amount is deferred and amortized over the service life of all employees that are provided with pensions through the pension plan. However, earnings are amortized over 5 years.

**Revenue Sources**

Revenues for operations are provided primarily from the District School Board of Polk County, Florida pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the School Board. The School Board receives a 5% administrative fee from the School, which is withheld from the respective Florida Education Finance Program (FEFP) payments. The administrative expense is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances of governmental funds. The administrative fee is calculated on the FEFP revenue up to 250 students. The difference between the actual expense and the expense calculated on total FEFP revenue is restricted for capital outlay expenditures. As of June 30, 2017, the School had expended all restricted funds for this purpose.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey period. The FDOE may also adjust subsequent fiscal period allocations based on an audit of the School's compliance in determining and reporting FTE and related data. Generally, such adjustments are treated as reductions or additions of revenues in the year when the adjustments are made.

The basic amount of funding through the FEFP under Section 1011.62 is calculated based on (1) unweighted FTE, multiplied by (2) the cost factor for each program multiplied by (3) the base student allocation established by the Florida legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2., Florida Statutes. For the year ended June 30, 2017, the School reported 981.50 unweighted FTE.

The School received additional funding under other federal and state grants. This assistance is generally received based on applications submitted to various granting agencies. For federal and state grants in which funding is awarded based on incurring eligible expenditures, revenue is recognized as the amount of eligible expenditures have been incurred.

**2 FAIR VALUE MEASUREMENTS**

Accounting principles generally accepted in the United States (GAAP) define fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of "inputs" an organization may use in determining or estimating fair value. The inputs are categorized into "levels" that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical items (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).



**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value as follows:

*Level 1:* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2:* Inputs other than quoted market prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

*Level 3:* Unobservable inputs for an asset or liability. Level 3 inputs should be used to measure fair value to the extent that observable level 1 or 2 inputs are not available.

The estimated fair value of the School's pension liability and related deferred outflows and inflows determined using Level 3 inputs is based on information provided by the Auditor General. The estimated fair value of the School's pensions and related deferred outflows and inflows using Level 3 inputs is determined by calculating the present value of the future distributions expected to be paid, using published life expectancy tables and discount rates ranging from approximately 2% to 7.6%. There were no changes in valuation techniques during the year.

The carrying values of cash and cash equivalents, investments, cash restricted for long-term purposes, and the note payable do not differ materially from reasonable estimates of fair value, as the terms of such instruments do not vary significantly from the assumptions that would be made in estimating fair value.

Estimated fair value of certain assets and (liabilities) measured on a recurring basis at June 30, 2017, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 991,310	\$ 687,214	\$ -	\$ 1,678,524
Pension liability	-	-	(3,306,998)	(3,306,998)
Deferred inflows and outflows relating to pension liability	-	-	1,097,152	1,097,152
Total	<u>\$ 991,310</u>	<u>\$ 687,214</u>	<u>\$(2,209,846)</u>	<u>\$ (531,322)</u>

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

**3 INVESTMENTS**

The School had the following investments and maturities as of June 30, 2017:

<b>Investment</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>	
		<b>Less than 1</b>	<b>1 - 5</b>
Cash and cash equivalents	\$ 26,861	\$ 26,861	\$ -
Equities	687,214	-	687,214
Mutual funds	964,449	964,449	-
Total investments	<u>\$ 1,678,524</u>	<u>\$ 991,310</u>	<u>\$ 687,214</u>

**Interest Rate Risk:** As a means of limiting its exposure to fair value losses, the School's investment policy adheres to Florida Statutes.

**Credit Risk:** State law limits investments of surplus public funds to the Prudent Investment Act. The School's investment policy is to follow the guidelines of the Prudent Investment Act. All of the School's investments are in compliance as of June 30, 2017.

**Concentration of Credit Risk:** More than 5 percent of the School's investments are from the following issuers:

<b>Issuer:</b>	<b>Amount</b>	<b>Percentage of Total Investments</b>
JPMorgan Equity Income Select Shares	\$148,046	8.82%
IShares Russell 1000 Value EFT	\$144,490	8.61%
IShares Russell 1000 Growth ETF	\$185,195	11.03%
Glenmede Large Cap Growth Fund	\$180,675	10.76%

**4 DUE FROM OTHER AGENCIES**

Due from other agencies included in the accompanying financial statements includes approximately \$73,000 in reimbursements from the School Board for Title I, E-rate and other amounts due to the School. Based on the source of these funds, management has evaluated the collectability and an allowance for doubtful accounts is not considered necessary.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

**5 CAPITAL ASSETS**

Capital assets as of June 30, 2017 were as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Transfers / Decreases</b>	<b>Ending Balance</b>
<b>Capital assets:</b>				
Furniture, fixtures and equipment	\$ 546,608	\$ 197,346	\$ (27,350)	\$ 716,604
Vehicles	2,250,504	-	-	2,250,504
Land	1,047,361	-	-	1,047,361
Building	-	7,346,167	-	7,346,167
Construction in progress	3,303,093	865,848	(3,303,093)	865,848
Total capital assets	<u>7,147,566</u>	<u>8,409,361</u>	<u>(3,330,443)</u>	<u>12,226,484</u>
<b>Accumulated depreciation:</b>				
Furniture, fixtures and equipment	(322,802)	(57,145)	26,751	(353,196)
Vehicles	(1,016,578)	(182,748)	-	(1,199,326)
Total accumulated depreciation	<u>(1,339,380)</u>	<u>(239,893)</u>	<u>26,751</u>	<u>(1,552,522)</u>
Capital assets, net	<u>\$ 5,808,186</u>	<u>\$ 8,169,468</u>	<u>(3,303,692)</u>	<u>10,673,962</u>

**Depreciation expense:**

Instruction	\$ 36,080
Pupil personnel	5,207
Instructional media services	599
School administration	2,812
Food service	1,479
Central services	4,016
Transportation services	182,748
Operations of plant	<u>6,952</u>
Total governmental activities depreciation expense	<u>\$ 239,893</u>

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

**6 NOTES PAYABLE**

The School's long-term notes payable are as described below:

Note payable to a financial institution is secured by the School's vehicles financed under the notes. Terms of the note include monthly interest and principal payments of \$5,934, with a fixed interest rate of 3.66% per annum. The note payable matures July 2019. \$ 96,962

Promissory note to a financial institution secured by the land and building. There is a fixed interest rate of 5.88% per annum until February 2022. The interest rate will then be adjusted every 5 years to 4.0% over the U.S. Treasury Security 5 year rate. Terms of the note include annual interest only payments beginning February 2017 until January 2018. Annual principal and interest payments of \$45,767 commences February 2018. The note is due and payable in full December 2041. 7,000,000

Promissory note to a financial institution secured by the land and building. There is a fixed interest rate of 5.03% per annum until September 2022. The interest rate will then be adjusted every 5 years to 3.2% over the U.S. Treasury Security 5 year rate. Terms of the note include annual interest only payments beginning May 2017 until September 2018. Annual principal and interest payments of \$24,645 commences October 2018. The note is due and payable in full in September 2057. 865,848

Note payable to a financial institution is secured by the School's vehicles purchased under the notes. Terms of the note include monthly interest and principal payments of \$7,396, with a fixed interest rate of 4.59%. The note payable matures June 2021. 323,743

Equipment lease agreement is secured by the equipment. Terms of the agreement include monthly interest and principal payments of \$5,742. At the end of the lease, there is an option to buy the equipment for \$1. 175,090

Total \$ 8,461,643

Activity during fiscal year 2017 was as follows:

Balance outstanding at the beginning of year	\$ 2,730,941
Additions	5,861,380
Reductions	(130,678)
Balance outstanding at the end of year	<u>\$ 8,461,643</u>

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

Future debt service requirements related to the long-term notes payable are as follows:

<b>Year Ended June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 238,601	\$ 436,583	\$ 435,091
2019	329,390	426,063	755,453
2020	283,414	410,038	693,452
2021	232,091	394,841	626,932
2022	166,083	383,276	549,359
2023-2027	1,002,902	1,651,601	2,654,503
2028-2032	1,384,624	1,361,415	2,746,039
2033-2037	1,856,452	889,506	2,745,958
2038-2042	2,102,238	266,335	2,368,573
<b>Total</b>	<b>\$ 7,595,795</b>	<b>\$ 6,219,658</b>	<b>\$ 13,815,453</b>

Interest paid during the year ended June 30, 2017 totaled approximately \$253,000.

Additionally, the note in the amount of \$865,848 was drawn during the construction phase in progress. This construction was completed in September of 2017 and the total amount of the note is approximately \$5,000,000. Beginning October 2017 future minimum payments are as follows :

<b>Year Ended June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ -	\$ 209,211	\$ 209,211
2019	31,617	190,188	221,805
2020	42,654	273,085	315,739
2021	45,581	231,637	277,218
2022	44,349	246,309	290,658
2023-2027	284,059	114,351	398,410
2028-2032	376,172	1,102,528	1,478,700
2033-2037	483,486	995,214	1,478,700
2038-2042	621,413	857,287	1,478,700
2041-2045	798,688	680,012	1,478,700
2046-2050	1,026,536	452,164	1,478,700
Thereafter	1,245,445	159,548	1,404,993
<b>Total</b>	<b>\$ 5,000,000</b>	<b>\$ 5,511,534</b>	<b>\$ 10,511,534</b>

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County, Florida**

**Notes to the Financial Statements  
(continued)**

**7 RETIREMENT PLANS**

**Florida Retirement System (FRS) – Defined Benefit Pension Plans**

**General Information about the FRS**

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any state-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the School are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' website ([www.dms.myflorida.com](http://www.dms.myflorida.com))

**FRS Pension Plan**

Plan Description: The FRS Pension Plan (the "Plan") is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The general classes of membership are as follows:

- Regular Class – Members of the FRS who do not qualify for membership in the other classes.
- Senior Management Service Class (SMSC) – Members in senior management level positions.

All employees of the school are members of the regular class. Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of the Plan may include up to 4 years of credit for military service toward creditable service. The

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Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided: Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Services</u>	<u>%Value</u>
Regular Class members initially enrolled before July 1, 2011:	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
Regular Class members initially enrolled after July 1, 2011:	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

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Contributions: The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year were as follows.

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer</u>
FRS, Regular	3.00	5.56

The School's contributions, including employee contributions, to the Plan totaled \$209,003 for the fiscal year ended June 30, 2017. This excludes the HIS defined benefit pension plan contributions.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2017, the School reported a liability of \$1,822,059 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The School's proportionate share of the net pension liability was based on the School's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members.

For the fiscal year ended June 30, 2017, the School recognized pension expense of \$253,318 related to the Plan. In addition, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 139,511	\$ (16,965)
Change of assumptions	110,229	-
Net difference between projected and actual earnings on FRS pension plan investments	848,214	(367,234)
Changes in proportion and differences between school FRS contributions and proportionate share of contributions	-	(108,614)
School FRS contributions subsequent to the measurement date	209,003	-
Total	\$ 1,296,957	\$ (492,813)

The deferred outflows of resources related to pensions, totaling \$209,003 resulting from School contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.



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Actuarial Assumptions: The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment of return	7.60 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual Geometric Return</u>	<u>Standard Deviation</u>
Cash	1.00%	3.0%	3.0%	1.7%
Fixed income	18.00%	4.7%	4.6%	4.6%
Global Equity	53.00%	8.1%	6.8%	17.2%
Real Estate (Property)	10.00%	6.4%	5.8%	12.0%
Private Equity	6.00%	11.5%	7.8%	30.0%
Strategic investments	12.00%	6.1%	5.6%	11.1%
Total	<u>100.00%</u>			
Assumed Inflation Mean		2.60%		1.9%

Discount Rate: The discount rate used to measure the total pension liability was 7.6 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the School's Proportionate Share of the Net Position Liability to Changes in the Discount Rate: The following presents the School's proportionate share of the net pension liability using the discount rate of 7.6 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.6 percent) or 1-percentage-point higher (8.6 percent) than the current rate:

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	1% Decrease <u>(6.6%)</u>	Current Discount Rate <u>(7.6%)</u>	1% Increase <u>(8.6%)</u>
School's proportionate share of the net pension liability	\$ 1,582,314	\$ 1,822,059	\$ 2,061,804

Pension Plan Fiduciary Net Position: Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan: At June 30, 2017, the School reported a payable of \$-0- for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2017.

**HIS Pension Plan**

Plan Description: The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Florida Department of Management Services.

Benefits Provided: For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions: The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to section 112.363, Florida Statutes. The School contributed 100 percent of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled. The School's contributions to the HIS Plan totaled \$73,908 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2017, the School reported a net pension liability of \$1,484,939 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The School's proportionate share of the net pension liability was based on the School's 2015-16 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members.

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For the fiscal year ended June 30, 2017, the School recognized pension expense of \$119,114 related to the HIS Plan. In addition, the School reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (3,382)
Change of assumptions	223,025	-
Net difference between projected and actual earnings on HIS pension plan investments	751	-
Changes in proportion and differences between School HIS contributions and proportionate share of HIS contributions School contributions subsequent to the measurement date	39,803	(51,097)
Total	<u>73,908</u> <u>\$ 347,487</u>	<u>-</u> <u>\$ (54,479)</u>

The deferred outflows of resources related to pensions, totaling \$73,908, resulting from School contributions to the HIS Plan subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Actuarial Assumptions: The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	7.85 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

Discount Rate: The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.85 percent) or 1-percentage-point higher (3.85 percent) than the current rate:

	<u>Decrease (1.85%)</u>	<u>Discount Rate (2.85%)</u>	<u>Increase (3.85%)</u>
School's proportionate share of the net pension liability	\$1,703,563	\$1,484,939	\$1,303,494

Pension Plan Fiduciary Net Position: Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan: At June 30, 2017, the School reported a payable of \$-0- for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2017.

**FRS – Defined Contribution Pension Plan**

The Public Employee Optional Retirement Program (PEORP) is administered by FRS as an option to the defined benefit plan. It is self-directed by the employee. The Employees have the responsibility of selecting how their funds are invested within the approved set of investment choices and may take their funds when they leave FRS. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of the investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, Etc.). The School had no PEORP participants during fiscal year 2017.

The School contributes to the FRS Investment Plan (Investment Plan), a defined contribution pension plan, for its eligible employees electing to participate in the Investment Plan. The Investment Plan is administered by the SBA, and is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report. Service retirement benefits are based upon the value of the member's account upon retirement.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. School employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member

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accounts, and the individual members allocate contributions and account balances among various approved investment choices. Allocations to the investment member's accounts during the 2016-17 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	5.15
FRS, Senior Management Service	6.27

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five year period, the employee will regain control over their account. If the employee does not return within the five year period, the employee will forfeit the accumulated account balance. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the School.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

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**Notes to the Financial Statements  
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**8 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES**

**District School Board of Polk County, Florida:**

Florida Education Finance Program	\$ 4,004,007
Class size reduction	759,201
Transportation	307,128
Discretionary millage funds	230,948
Supplemental academic instruction	220,840
Discretionary stabilization	207,098
ESE guaranteed allocation	156,893
Instructional materials	77,207
Reading allocation	39,465
Digital classroom	20,249
Safe schools	18,883
Discretionary lottery funds	15,072
Lead teacher	13,728
Additional allocation	250
Proration of funds available	(2,447)
Total	<u>\$ 6,068,522</u>

The administrative fee paid to the School Board during the year ended June 30, 2017 totaled approximately \$77,000, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances of governmental funds.

**9 RISK MANAGEMENT PROGRAM**

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

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**Notes to the Financial Statements  
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**10 RELATED PARTY TRANSACTIONS**

The School is related to Discovery High School, Inc. by a common board of directors. There are several transactions that occurred between the School and Discovery High School. The following transactions occurred:

- The School purchased land with the intention of leasing the land to the Discovery High School. The agreement indicates that the amount will be determined annually. Under the current agreement, rent expense charged to Discovery High School was \$1.
- The School signed the notes payable relating to the aforementioned land and building totaling approximately \$7,866,000 and Discovery High School co-signed on the loans.
- There is approximately \$594,000 non-current asset relating to the notes payable the Schools signed.
- Discovery Academy paid approximately \$208,000 of closing costs and \$170,000 of interest relating to the notes payable on behalf of Discovery High School, which was forgiven in the current year.
- There is approximately \$271,000 payable to Discovery High School for operating costs in the current year.
- Discovery Academy provided for food and transportation services for Discovery High School students. The School received approximately \$91,000 in transportation revenue from Discovery High School.

**11 COMMITMENTS AND CONTINGENT LIABILITIES**

**Grants**

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable as of year end may be impaired.

Management also believes there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Legal matters**

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. Management believes the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

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**Notes to the Financial Statements  
(continued)**

**12 CAMPUS FACILITIES**

The title of the school building and facilities acquired prior to July 1, 2001 remain with the School Board. Florida Statutes provide that the use of the school building and facilities be furnished to charter schools on the same basis as made available to other public schools in the district. No rental or leasing fee may be charged by the district school board to the charter school or to the parents and educators who organize the charter school.

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

Originally, any capital assets acquired prior to July 1, 2001 also remained with the School Board. However, on May 14, 2013, the School District transferred ownership, title and all inherent duties related to these capital assets located on the School campus to Discovery Academy of Lake Alfred, Inc.

**13 INCOME TAXES**

The School qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is therefore, exempt from income taxes. Accordingly, no tax provision has been made in the accompanying financial statements. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to the financial statements. The School's income tax returns for the past tax years ended 2013, 2014 and 2015 are subject to examination by tax authorities, and may change upon examination.

**14 SUBSEQUENT EVENTS**

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through September 26, 2017 which is the date the financial statements were available to be issued.



**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

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**Budgetary Comparison Schedule - General Fund**

**For the Year Ended June 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
State and local sources	\$ 6,332,869	\$ 6,520,270	\$ 6,068,522	\$ (451,748)
Contributions and other revenue	88,000	125,000	535,762	410,762
<b>Total revenues</b>	<b>6,420,869</b>	<b>6,645,270</b>	<b>6,604,284</b>	<b>(40,986)</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	3,514,416	3,342,906	3,243,840	(99,066)
Pupil personnel services	420,869	475,856	661,688	185,833
Instructional media services	104,459	105,151	96,652	(8,499)
Instructional and curriculum development	9,995	-	-	-
Instructional staff training	20,000	20,000	12,581	(7,419)
Board	50,152	51,225	42,793	(8,432)
General administration	78,666	77,111	77,111	-
School administration	881,390	869,773	840,249	(29,524)
Facilities acquisition and construction	-	160,952	84,658	(76,294)
Fiscal services	62,087	66,950	63,441	(3,509)
Central services	25,200	38,200	60,560	22,360
Pupil transportation	785,566	775,869	778,372	2,503
Operation of plant	447,250	471,650	389,534	(82,116)
Capital outlay	-	-	-	-
<b>Total expenditures</b>	<b>6,400,050</b>	<b>6,455,643</b>	<b>6,351,479</b>	<b>(104,164)</b>
Excess (deficiency) of revenues over expenditures	20,820	189,628	252,805	63,178
<b>OTHER FINANCIAL SOURCES (USES)</b>				
Operating transfer out	(145,300)	(491,800)	(5,406,532)	(4,914,732)
<b>Total other financial sources (uses)</b>	<b>(145,300)</b>	<b>(491,800)</b>	<b>454,848</b>	<b>946,648</b>
<b>Net changes in fund balances</b>	<b>(124,480)</b>	<b>(302,173)</b>	<b>707,653</b>	<b>1,009,826</b>
Fund balances at beginning of year	1,536,229	1,536,229	1,536,229	-
<b>Fund balances at end of year</b>	<b>\$ 1,411,749</b>	<b>\$ 1,234,057</b>	<b>\$ 2,243,882</b>	<b>\$ 1,009,826</b>

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

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**Budgetary Comparison Schedule - Special Revenue Fund**

**For the Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal sources passed through local school district	\$ 670,677	\$ 670,677	\$ 965,877	\$ 295,200
Contributions and other revenue	238,239	238,239	148,538	(89,701)
<b>Total revenues</b>	<b>908,916</b>	<b>908,916</b>	<b>1,114,415</b>	<b>205,499</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	5,987	5,987	53,899	47,912
Pupil personnel services	100,211	100,211	141,959	41,748
Instructional and curriculum development	14,422	14,422	-	(14,422)
Instructional staff training	117,619	117,619	127,794	10,175
Food services	578,342	578,342	815,323	236,981
<b>Total expenditures</b>	<b>816,581</b>	<b>816,581</b>	<b>1,138,975</b>	<b>322,394</b>
 Net changes in fund balances	 92,335	 92,335	 (24,560)	 (116,895)
Fund balances at beginning of year	238,968	238,968	238,968	-
Fund balances at end of year	<u>\$ 331,303</u>	<u>\$ 331,303</u>	<u>\$ 214,408</u>	<u>\$ (116,895)</u>

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

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**Required Supplementary Information  
(continued)**

Schedule of the School's Proportionate Share of the Net Pension Liability-  
Florida Retirement System Pension Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the FRS net pension liability (asset)	0.0072%	0.0077%	0.0079%	0.0085%
School's proportionate share of the FRS net pension liability (asset)	\$ 1,822,059	\$ 992,325	\$ 483,961	\$ 1,416,249
School's covered-employee payroll	\$ 3,705,121	\$ 3,953,168	\$ 3,725,715	\$ 3,816,674
School's proportionate share if the FRS net pension liability (asset) as a percentage of its covered-employee payroll	49.18%	25.10%	12.99%	37.11%
FRS Plan fiduciary net position as a percentage of the total pension liability	55.10%	44.27%	28.88%	55.36%

Schedule of School Contributions  
Florida Retirement System Pension Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required FRS contribution	\$ 209,003	\$ 187,311	\$ 187,311	\$ 173,742
FRS contribution in relation to the contractually required FRS contribution	\$ (209,003)	\$ (187,311)	\$ (187,311)	\$ (173,742)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
School's covered employee payroll	\$ 3,705,121	\$ 3,953,168	\$ 3,725,715	\$ 3,816,674
FRS contribution as a percentage of covered employee payroll	5.64%	4.74%	5.03%	4.55%

See Independent Auditor's Report.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County Florida**

**Required Supplementary Information  
(continued)**

Schedule of the School's Proportionate Share of the Net Pension Liability-  
Health Retirement System Pension Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the HIS net pension liability (asset)	0.0127%	0.0123%	0.0128%	0.0131%
School's proportionate share of the HIS net pension liability (asset)	\$ 1,484,939	\$ 1,249,207	\$ 1,191,786	\$ 1,141,843
School's covered-employee payroll	\$ 3,705,121	\$ 3,953,168	\$ 3,725,715	\$ 3,816,674
School's proportionate share if the HIS net pension liability (asset) as a percentage of its covered-employee payroll	40.08%	31.60%	31.99%	29.92%
HIS Plan fiduciary net position as a percentage of the total pension liability	44.90%	55.73%	71.12%	44.64%

Schedule of School Contributions  
Florida Retirement System Pension Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required HIS contribution	\$ 73,908	\$ 46,823	\$ 43,664	\$ 43,664
HIS contribution in relation to the contractually required HIS contribution	\$ (73,908)	\$ (46,823)	\$ (43,664)	\$ (43,664)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
School's covered employee payroll	\$ 3,705,121	\$ 3,953,168	\$ 3,725,715	\$ 3,816,674
HIS contribution as a percentage of covered employee payroll	1.99%	1.18%	1.17%	1.14%

See Independent Auditor's Report.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**A Charter School and Component Unit of the  
District School Board of Polk County Florida**

**Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2017**

<b>Federal Grantor / Pass-through Grantor / Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Period</b>	<b>Expenditures</b>
United States Department of Agriculture / Florida Department of Agriculture / Polk County School District / School Lunch Program	10.555	7/1/16 - 6/30/17	\$ 499,677
United States Department of Agriculture / Florida Department of Agriculture / Polk County School District / School Breakfast Program	10.553	7/1/16 - 6/30/17	87,730
Total Food Program Cluster			<u>587,407</u>
United States Department of Agriculture / Florida Department of Agriculture / Polk County School District / Commodity Supplemental Food Program	10.565	7/1/16 - 6/30/17	54,818
United States Department of Education / Florida Department of Education / Polk County School District / Title I Grants to Local Education Agencies	84.010	7/1/16 - 6/30/17	239,883
United States Department of Education / Florida Department of Education / Polk County School District / Special Education Grants to States (IDEA, Part B)	84.027	7/1/16 - 6/30/17	83,769
Total Federal Award Expenditures			<u>\$ 965,877</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**Notes to Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2017**

**1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School and is presented on the accrued basis of accounting. The information in the schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2 DE MINIMIS INDIRECT COST RATE**

The auditee used actual costs and did not elect to use the 10% indirect cost rate.



**M<sup>c</sup>CRADY | HESS**  
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors of Discovery Academy of Lake Alfred, Inc.,  
a Charter School and Component Unit of the District  
School Board of Polk County, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Discovery Academy of Lake Alfred, Inc., a Charter School and Component Unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated 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 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.

This report is intended solely for the information and use of management of the School, the District School Board of Polk County, Florida, the Florida Department of Education and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

*McCRA DY HESS*

Orlando, Florida  
September 26, 2017

1000 Legion Place, Suite 701 ■ Orlando, FL 32801  
Office 407-478-4020 ■ Fax 407-894-2094 ■ [cpa@mccradyhess.com](mailto:cpa@mccradyhess.com) ■ [www.mccradyhess.com](http://www.mccradyhess.com)





**M<sup>c</sup>CRADY | HESS**  
CERTIFIED PUBLIC ACCOUNTANTS

## **Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required by Uniform Guidance**

To the Board of Directors of Discovery Academy of Lake Alfred, Inc.,  
a Charter School and Component Unit of the District  
School Board of Polk County, Florida

### **Report on Compliance for Each Major Federal Program**

We have audited Discovery Academy of Lake Alfred, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, Florida compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. The School's major federal programs are identified in the summary of Auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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

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

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

## Report on Internal Control Over Compliance

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

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

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

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

*MC CRADY HESS*

Orlando, Florida  
September 26, 2017

1000 Legion Place, Suite 701 ■ Orlando, FL 32801  
Office 407-478-4020 ■ Fax 407-478-4021 ■ [cpa@mhrcpas.com](mailto:cpa@mhrcpas.com) ■ [www.mhrcpas.com](http://www.mhrcpas.com)

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**Schedule of Findings and Questioned Costs**

**For the Year Ended June 30, 2017**

**Section I – Summary of Auditor’s Results**

*Financial Statements*

Type of auditor’s report issued: Unmodified

Internal Control over financial reporting:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None noted

Noncompliance material to financial statements noted? No

*Federal Awards*

Internal control over major programs:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None noted

Type of auditor report issued on compliance for major programs? Unmodified

Audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance? No

Identification of major programs:

<b>CFDA Number</b>	<b>Grant Period</b>	<b>Name of Federal Program</b>
10.553	7/1/16 – 6/30/17	School Breakfast Program
10.555	7/1/16 – 6/30/17	National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs? \$750,000

Qualified as a low-risk auditee? Yes

**DISCOVERY ACADEMY OF LAKE ALFRED, INC.**

**Schedule of Findings and Questioned Costs  
(continued)**

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**Section IV – Status of Prior Year Audit Findings**

There were no prior year audit findings reported.

**Additional Information Required by  
Rules of the Auditor General,  
Chapter 10.850, *Audits of Charter Schools  
and Similar Entities***



**M<sup>c</sup>CRADY | HESS**  
CERTIFIED PUBLIC ACCOUNTANTS

**Management Letter as Required by Rules of the Florida Auditor General,  
Chapter 10.850, Florida Statutes, *Charter School Audits***

To the Board of Directors of Discovery Academy of Lake Alfred, Inc.,  
a Charter School and Component Unit of the District  
School Board of Polk County, Florida.

**Report on the Financial Statements**

We have audited the financial statements of Discovery Academy of Lake Alfred, Inc. (the “School”) as of and for the fiscal 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and Chapter 10.850, Rules of the Auditor General.

**Other Reports and Schedules**

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. We have also issued our Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance.

**Prior Audit Findings**

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

**Official Title**

Section 10.854(1)(e)5. Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Discovery Academy of Lake Alfred, Inc.

**Financial Condition**

Sections 10.854(1)(e)2. Rules of the Auditor General, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific 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 Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

### **Other Matters**

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

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

### **Purpose of this Letter**

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

*McCRA DY HESS*

Orlando, Florida  
September 26, 2017

1000 Legion Place, Suite 701 ■ Orlando, FL 32801  
Office 407-478-4020 ■ Fax 407-894-2094 ■ [cpa@mccradyhess.com](mailto:cpa@mccradyhess.com) ■ [www.mccradyhess.com](http://www.mccradyhess.com)