

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SUMTER COUNTY DISTRICT SCHOOL BOARD)
THE VILLAGES, FLORIDA**

JUNE 30, 2017

**FINANCIAL STATEMENTS
AND
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(A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SUMTER COUNTY DISTRICT SCHOOL BOARD)
THE VILLAGES, FLORIDA**

JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Villages Charter School, Inc. (the School), a component unit of the Sumter County District School Board, 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.

Auditors' 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 for the School as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparison statement for the general fund and major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 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 the 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.



October 24, 2017
Ocala, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management of The Villages Charter School, Inc. (the Charter School) has prepared the following discussion and analysis to provide an overview and analysis of the Charter School's financial activities for the year ended June 30, 2017. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be read in conjunction with the preceding Independent Auditors' Report and financial statements following this section.

Overview of Financial Statements

This discussion and analysis will serve as introduction to the Charter School's basic financial statements which include three components: 1) governmental activities financial statements; 2) fund financial statements; and 3) notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the governmental activities and fund financial statements. This report also contains accompanying information in addition to the basic financial statements.

Governmental Activities Financial Statements and Financial Analysis

The *governmental activities financial statements* report information for the Charter School as a whole. The statements are designed to provide an overview of the Charter School's financial position utilizing the full accrual basis of accounting.

The *governmental statement of net position* presents information on all of the Charter School's assets and liabilities, with the difference between the two reported as net position. The net position assets of the Charter School are summarized in the following table:

Current Assets	\$ 366,170	\$ 931,206
Capital Assets	1,468,117	1,606,749
Total Assets	<u>1,834,287</u>	<u>2,537,955</u>
Total Liabilities	<u>1,784,412</u>	<u>2,202,222</u>
Invested in Capital Assets	1,468,117	1,606,749
Unrestricted/Restricted	(1,418,242)	(1,271,016)
Total Net Position	<u>\$ 49,875</u>	<u>\$ 335,733</u>

The total assets of the Charter School decreased by (\$703,668) in 2017. The total liabilities of the Charter School decreased (\$417,810) in 2017. The Charter School has no long-term debt. The total net position decreased by (\$285,858) in 2017, due to the total cost of capital assets purchased during the year being less than depreciation expense for the year and net book value of assets disposed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The *governmental statement of activities* presents information on all of the Charter School's revenue, expenses, and changes in net position for the year. The changes in net position are detailed as follows:

	Governmental Activities 2017	Governmental Activities 2016
Revenues		
Program Revenue:		
Capital Grants	\$ 875,849	\$ 685,480
Operating Grants and Contributions	891,864	839,216
Charges for Services	4,526,018	5,571,267
General Revenue:		
Florida Education Finance Program	17,123,716	16,702,558
"A" School Funds	306,560	287,260
Advance Placement Funds	50,414	41,513
Voluntary Pre-kindergarten	414,616	395,911
Contributions	6,203,981	6,007,386
Miscellaneous	242,864	226,854
Total Revenues	30,635,882	30,757,445
Expenses		
Instruction	\$ 14,938,729	\$ 15,317,075
Instructional Support Services	1,273,618	1,191,380
General Support Services	7,294,410	6,996,295
Facilities Operating Lease	875,849	685,480
Maintenance of Plant	2,102,478	1,711,252
Community Services	2,525,138	3,163,523
Food Services	1,546,197	1,483,868
Depreciation - Unallocated	362,419	352,656
Loss on Disposal of Capital Assets	2,902	916
Total Expenses	30,921,740	30,902,445
Change in Net Position	\$ (285,858)	\$ (145,000)

The Capital Grants revenue increased \$190,369 due to the State increasing Charter School Capital Outlay funds allocation from the prior year. The Florida Education Finance Program revenue increased \$421,158 in 2017 due to an increase in student enrollment. Charges for services decreased \$1,045,249 in 2017 primarily due to the closing of the Lifelong Learning College in December, 2016.

Expenses related to instruction decreased by \$378,246. This decrease is due to less computer expenses in the current year due to the one to one technology implementation in the prior year. General support services expenses increased by \$298,115. The increase is due to increased operating and equipment costs. Community services expenses decreased by \$638,385 mainly due to the closing of the Lifelong Learning College in December, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Concluded)

Fund Financial Statements and Financial Analysis

Governmental Fund

The financial transactions of the Charter School are reported in three governmental funds, the general fund, which accounts for all functions of the school except food services, the capital projects fund which records the State Charter School Capital Outlay funds, and the special revenue fund which accounts for the food service program. The governmental fund financial statements are presented on the modified accrual basis of accounting, whereas the governmental activities are presented on the full accrual basis.

Fund balance-unassigned in the general fund decreased (\$213,167) due to increased operating expenditures. Fund balance-unassigned in the special revenue fund increased by \$65,941 due to increased enrollment resulting in higher participation in the food service program. The Charter School's governmental fund statement of revenues, and expenses and changes in fund balance shows a total net change in fund balances of (\$147,226) for 2017.

Agency Fund

The Charter School uses an *agency fund* to account for assets held by the Charter School as agent for individuals and organizations. The agency fund included in these financial statements is the school internal fund used to administer monies collected for student athletic activities and student clubs and organizations.

Capital Assets

The Charter School's investment in capital assets for its governmental activities amounts to \$1,468,117 (net of accumulated depreciation). This investment in capital assets includes buildings, leasehold improvements, equipment, vehicles, and library books.

Budgetary Comparison Analysis-General Fund

Actual contributions were \$1,350,147 less than the final budget amount at June 30, 2017. The variance illustrates that less contributions were needed to supplement the operations of the Charter School than expected.

Other Matters of Significance

The Charter School is a component unit of the Sumter County District School Board. Therefore, the Charter School's financial statements are required to be included in the Sumter County District School Board's Annual Financial Report.

The Villages Charter School, Inc. is a charter school in the workplace and is subsidized by the Holding Company of The Villages, Inc. (The Villages). The Villages makes contributions to the Charter School to supplement its operations as needed.

Economic Factors

As part of the State-wide education funding formula through the Sumter County District School Board, the Charter School's economic position is closely tied to that of the State of Florida. As the shortfall of tax revenue in the State of Florida begins to decline and the nation's struggling economy begins to recover, the State appropriations for education are beginning to increase. Management oversight for the 2017-2018 fiscal year will be critical to ensure that the Charter School continues to operate effectively.

**STATEMENT OF NET POSITON
GOVERNMENTAL ACTIVITIES
JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

ASSETS

Assets

Cash in Bank	\$ 213,343
Accounts Receivable	137,194
Prepaid Expenses	2,754
Inventory	12,879
Capital Assets, Net of Accumulated Depreciation	1,468,117
Total Assets	<u>1,834,287</u>

LIABILITIES AND NET POSITION

Liabilities

Accounts Payable - Trade	355,516
Accounts Payable - Related Parties	73,486
Health Claims Payable	512,593
Accrued Salary and Related Payroll Expenses	344,696
Short-term Advance - Related Party	261,915
Due to Student Activities	139,738
Unearned Revenue	96,468
Total Liabilities	<u>1,784,412</u>

Net Position

Net Investment in Capital Assets	1,468,117
Restricted for Food Services	152,975
Unrestricted	(1,571,217)
Total Net Position	<u>\$ 49,875</u>

See accompanying notes.

**STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
			<u>Operating Grants and Contributions</u>	<u>Capital Grants</u>	<u>Governmental Activities</u>
Governmental Activities					
Instruction	\$ 14,938,729	\$ 1,070,183	\$ 97,921	\$ 0	\$ (13,770,625)
Instructional Support Services	1,276,520	0	52,452	0	(1,224,068)
General Support Services	7,294,410	0	8,875	0	(7,285,535)
Facilities Operating Lease	875,849	0	0	875,849	0
Maintenance of Plant	2,102,478	0	0	0	(2,102,478)
Community Services	2,525,138	2,576,313	0	0	51,175
Food Services	1,546,197	879,522	732,616	0	65,941
Depreciation - Unallocated	362,419	0	0	0	(362,419)
Total Governmental Activities	\$ 30,921,740	\$ 4,526,018	\$ 891,864	\$ 875,849	(24,628,009)

General Revenues

Florida Education Finance Program	17,123,716
"A" School Funds	306,560
Advance Placement Funds	50,414
Voluntary Pre-kindergarten	414,616
Contributions	6,203,981
Other Miscellaneous	242,864
Total General Revenues	24,342,151
Change in Net Position	(285,858)
Net Position, Beginning of Year	335,733
Net Position, End of Year	\$ 49,875

See accompanying notes.

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2017

**THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

ASSETS

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Funds</u>	<u>Total Governmental Total</u>
Assets				
Cash in Bank	\$ 26,797	\$ 186,546	\$ 0	\$ 213,343
Accounts Receivable	136,831	363	0	137,194
Prepaid Items	2,754	0	0	2,754
Inventory	0	12,879	0	12,879
Due from Other Fund	0	398	0	398
Total Assets	<u>166,382</u>	<u>200,186</u>	<u>0</u>	<u>366,568</u>

LIABILITIES AND FUND EQUITY

Liabilities

Accounts Payable - Trade	355,516	0	0	355,516
Accounts Payable - Related Parties	73,399	87	0	73,486
Health Claims Payable	499,676	12,917	0	512,593
Accrued Expenses	341,827	2,869	0	344,696
Short-term Advance - Related Party	261,915	0	0	261,915
Unearned Revenue	65,130	31,338	0	96,468
Due to Student Activities	139,738	0	0	139,738
Due to Other Fund	398	0	0	398
Total Liabilities	<u>1,737,599</u>	<u>47,211</u>	<u>0</u>	<u>1,784,810</u>

Fund Balances

Nonspendable:				
Inventory	0	12,879	0	12,879
Prepaid Items	2,754	0	0	2,754
Restricted	0	140,096	0	140,096
Unassigned	(1,573,971)	0	0	(1,573,971)
Total Fund Balance	<u>(1,571,217)</u>	<u>152,975</u>	<u>0</u>	<u>(1,418,242)</u>

Total Liabilities and Fund Balance	<u>\$ 166,382</u>	<u>\$ 200,186</u>	<u>\$ 0</u>	<u>\$ 366,568</u>
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See accompanying notes.

**RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

Total Fund Balance (Deficit) - Governmental Funds \$ (1,418,242)

Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported
as assets in governmental funds. The cost of assets
is \$4,374,501 and the accumulated depreciation is
\$2,906,384 for 2017.

1,468,117

Total Net Position - Governmental Funds

\$ 49,875

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Revenue				
State - Through the Sumter County				
District School Board:				
Florida Education Finance Program	\$ 17,123,716	\$ 0	\$ 0	\$ 17,123,716
Charter School Capital Outlay Funds	0	0	875,849	875,849
"A" School Funds	306,560	0	0	306,560
Advance Placement Funds	50,414	0	0	50,414
Federal Through State:				
National School Lunch Program	0	732,616	0	732,616
Local:				
Food Services	0	879,522	0	879,522
Grants and Contracts	159,248	0	0	159,248
Contributions	6,203,981	0	0	6,203,981
Voluntary Pre-kindergarten	414,616	0	0	414,616
Child Care and Other Fees	3,374,860	0	0	3,374,860
Lifelong Learning Fees	271,636	0	0	271,636
Miscellaneous	301,416	0	0	301,416
Total Revenue	<u>28,206,447</u>	<u>1,612,138</u>	<u>875,849</u>	<u>30,694,434</u>
Expenditures				
Current:				
Instruction	14,938,729	0	0	14,938,729
Instructional Support Services	1,273,618	0	0	1,273,618
General Support Services	7,294,410	0	0	7,294,410
Facilities Operating Lease	875,849	0	0	875,849
Maintenance of Plant	2,102,478	0	0	2,102,478
Community Services	2,525,138	0	0	2,525,138
Food Services	0	1,546,197	0	1,546,197
Capital Outlay	285,241	0	0	285,241
(Total Expenditures)	<u>(29,295,463)</u>	<u>(1,546,197)</u>	<u>0</u>	<u>(30,841,660)</u>
(Deficiency) Excess of Revenues (Under)				
Over Expenditures	(1,089,016)	65,941	875,849	(147,226)
Other Financing Sources (Uses)				
Transfers in/(out)	875,849	0	(875,849)	0
Net Change in Fund Balances	(213,167)	65,941	0	(147,226)
Fund Balance, Beginning of Year	(1,358,050)	87,034	0	(1,271,016)
Fund Balance, End of Year	<u>\$ (1,571,217)</u>	<u>\$ 152,975</u>	<u>\$ 0</u>	<u>\$ (1,418,242)</u>

See accompanying notes.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

Total Net Change in Fund Balances - Governmental Funds \$ (147,226)

Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$285,241 is less than depreciation expense (\$362,419) in the period less the net book value of disposed assets (\$61,454).

(138,632)

Total Change in Net Position - Governmental Funds

\$ (285,858)

See accompanying notes.

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenue				
State - Through the Sumter County District School Board:				
Florida Education Finance Program	\$ 17,256,238	\$ 17,283,238	\$ 17,123,716	\$ (159,522)
"A" School Funds	0	301,000	306,560	5,560
Advance Placement Funds	0	50,000	50,414	414
Local:				
Grants and Contracts	0	0	159,248	159,248
Contributions	7,692,128	7,554,128	6,203,981	(1,350,147)
Voluntary Pre-kindergarten	375,000	410,000	414,616	4,616
Child Care and Other Fees	3,373,565	3,416,065	3,374,860	(41,205)
Lifelong Learning Fees	1,425,500	636,530	271,636	(364,894)
Miscellaneous	255,030	247,530	301,416	53,886
Total Revenue	<u>30,377,461</u>	<u>29,898,491</u>	<u>28,206,447</u>	<u>(1,692,044)</u>
Expenditures				
Current:				
Instruction	15,524,042	15,599,121	14,938,729	660,392
Instructional Support Services	1,336,363	1,334,463	1,273,618	60,845
General Support Services	7,352,291	7,792,649	7,294,410	498,239
Facilities Operating Lease	650,000	879,192	875,849	3,343
Maintenance of Plant	2,582,717	2,382,717	2,102,478	280,239
Community Services	3,210,128	2,566,458	2,525,138	41,320
Capital Outlay	371,920	354,291	285,241	69,050
(Total Expenditures)	<u>(31,027,461)</u>	<u>(30,908,891)</u>	<u>(29,295,463)</u>	<u>1,613,428</u>
(Deficiency) of Revenues (Under) Expenditures	(650,000)	(1,010,400)	(1,089,016)	(78,616)
Other Financing Source				
Transfers in	<u>650,000</u>	<u>875,100</u>	<u>875,849</u>	<u>749</u>
Net Changes in Fund Balances	0	(135,300)	(213,167)	(77,867)
Fund (Deficit) Balance, Beginning of Year	<u>(606,458)</u>	<u>(632,160)</u>	<u>(1,358,050)</u>	<u>(725,890)</u>
Fund (Deficit) Balance, End of Year	<u>\$ (606,458)</u>	<u>\$ (767,460)</u>	<u>\$ (1,571,217)</u>	<u>\$ (803,757)</u>

See accompanying notes.

**BUDGETARY COMPARISON STATEMENT
MAJOR SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenue				
Federal Through State:				
National School Lunch Program	\$ 700,500	\$ 700,500	\$ 732,616	\$ 32,116
Local:				
Food Services	890,000	890,000	879,522	(10,478)
Total Revenue	<u>1,590,500</u>	<u>1,590,500</u>	<u>1,612,138</u>	<u>21,638</u>
Expenditures				
Current:				
Food Service	1,590,500	1,590,500	1,546,197	44,303
(Total Expenditures)	<u>(1,590,500)</u>	<u>(1,590,500)</u>	<u>(1,546,197)</u>	<u>44,303</u>
Excess of Revenues Over Expenditures	0	0	65,941	65,941
Fund Balance, Beginning of Year	<u>(39,398)</u>	<u>(124,453)</u>	<u>87,034</u>	<u>211,487</u>
Fund Balance, End of Year	<u>\$ (39,398)</u>	<u>\$ (124,453)</u>	<u>\$ 152,975</u>	<u>\$ 277,428</u>

See accompanying notes.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
AS OF JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA

	Internal Accounts
Assets	
Cash	\$ 308,595
Due from General Fund	139,738
Total Assets	\$ 448,333
 Liabilities	
Due to Students and Student Organizations	\$ 448,333

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Villages Charter School, Inc. (the School) is a not-for-profit corporation organized in 1999 pursuant to Chapter 617, Florida Statutes, *Florida Not-for-Profit Corporation Act*, and Section 1002.33 Florida Statutes, and operates an elementary, middle school, and high school as a charter school in the workplace. The School also operates an early childhood development and life-long learning program which is not included with the charter provisions. The governing body of the School is the Board of Directors, which is composed of five members.

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 Sumter County District School Board (the District). The current charter may be renewed or extended. At the end of the terms of the charter, the District may choose not to renew under grounds specified in the charter, in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. Under Florida Statutes, the School's contract provides that in the event the School is dissolved or terminated, any unencumbered funds, and all the School property purchased with public funds automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown. The School is considered a component unit of the District.

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

Basis of Presentation

The School's basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the major fund). The School's primary activities are classified as governmental activities.

In the government-wide statement of net position, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables. The School's net position is reported in two parts - invested in capital assets and unrestricted net position. Fiduciary funds that are fiduciary in nature are not included in the government-wide financial statements.

The government-wide statement of activities reports both the gross and net cost of each of the School's functions. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function and include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. Operating grants include operating - specific and discretionary (either operating or capital) grants while the capital grants column reflects capital - specific grants.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

This government-wide focus is more on the sustainability of the School as an entity and the change in the School's net position resulting from the current year's activities.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Basic Financial Statements - Fund Financial Statements

The financial transactions of the School are reported in three individual funds in the fund financial statements. The funds are accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues, and expenditures/expenses.

The following fund types are used by the School:

■ **Governmental Funds**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the School:

- **General Fund**—is the general operating fund of the School. It is used to account for all financial resources. This fund is considered a major fund.
- **Special Revenue Fund**—to account for certain federal grants program resources such as the National School Lunch Program. This fund is considered a major special revenue fund.
- **Capital Projects Fund**—to account for the School's State Capital Outlay funds. Amounts are subsequently transferred to the General Fund to pay the operating lease agreement on the School's elementary primary and intermediate buildings.

■ Additionally, the School reports the following fiduciary fund type:

- **Agency Fund**—to account for resources of the school internal funds which are used to administer monies collected for student athletic activities and student organizations.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. Basis of accounting refers to when revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the recognition, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Concluded)

■ **Economic Resources Measurement Focus and Accrual Basis of Accounting**

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The effects of interfund activity have been eliminated from the government-wide financial statements. Fiduciary funds are reported on the accrual basis of accounting.

■ **Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting**

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Fund Equity

The following classifications describe the relative types of fund balance that is applicable to the School:

- Nonspendable fund balance-amounts that are not in a spendable form (such as Inventory and Prepaids) or are required to be maintained intact.
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors) through constitutional provisions, or by enabling legislation.
- Unassigned fund balance-amounts that are available for any purpose, positive amounts are reported only in the general fund.

Cash in Bank

Cash in Bank includes deposits held at a financial institution. The School's deposits are fully insured by Federal Depository Insurance Corporation (FDIC) since they are held in FDIC regulated noninterest bearing deposit accounts. Additionally, cash deposits for public funds are collateralized with securities held in Florida's multiple financial institution collateral pools as required by Chapter 280, Florida Statutes.

Inventory

Purchased food is valued at last invoice cost which approximates the first-in, first-out basis. The cost of food inventory is recorded as expenditures when used rather than purchased, through the use of the consumption method.

**NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation calculation is based on the straight-line method. Depreciation on all assets is provided over the following estimated useful lives:

5-10 Years	Library Books
3 Years	Software
5-15 Years	Machinery, Equipment, and Vehicles
15 Years	Infrastructure
15 to 40 Years	Improvements

Revenue Sources

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted FTE students reported by the School during the designated FTE student survey periods. Additionally, during the 2016-2017 school year, the School received A+ funds under the Bush/Brogan A+ Plan for Education.

Charter School Capital Outlay Funds are appropriated per Section 1013.62(1), Florida Statutes, for capital outlay purposes. The Commissioner of Education allocates the funds among eligible Charter Schools.

The School receives revenues from sales of food and revenues through the National School Lunch Program.

The School also receives grant revenues, tuition, after-care fees, voluntary pre-kindergarten funding, contributions from the Villages, contributions from other fundraising sources, and other miscellaneous items. There are no allocations of indirect expenses in the statement of activities.

Compensated Absences

The School has a policy to allow for paid days off (PDO) or compensated absences. At the end of the school year, a faculty member may choose to be paid for their unused PDOs (maximum of 10) at the current substitute daily rate. The payment is made at year-end; therefore, no compensated absences have been recorded.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

Management's Review

The School has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through October 24, 2017, the date the financial statements were available to be issued.

Budgetary Information

By September 1 of each fiscal year, the School submits an annual budget to the Board of Directors for approval. Annual operating budgets are prepared on the GAAP basis for the General and Special Revenue Fund.

Note 2 - Capital Assets

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

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental Activities				
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 2,340,598	\$ 149,010	\$ (125,928)	\$ 2,363,680
Buildings	425,457	0	0	425,457
Library Books	806,366	7,118	0	813,484
Leasehold Improvements	362,717	0	(24,424)	338,293
Vehicles	257,021	129,113	0	386,134
Infrastructure	<u>47,452</u>	<u>0</u>	<u>0</u>	<u>47,452</u>
Total Capital Assets Being Depreciated	<u>4,239,611</u>	<u>285,241</u>	<u>(150,352)</u>	<u>4,374,500</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	(1,596,859)	(262,129)	86,318	(1,772,670)
Buildings	(111,329)	(10,909)	0	(122,238)
Library Books	(736,738)	(18,304)	0	(755,042)
Leasehold Improvements	(50,456)	(13,346)	2,580	(61,222)
Vehicles	(121,156)	(54,665)	0	(175,821)
Infrastructure	<u>(16,324)</u>	<u>(3,066)</u>	<u>0</u>	<u>(19,390)</u>
(Total Accumulated Depreciation)	<u>(2,632,862)</u>	<u>(362,419)</u>	<u>88,898</u>	<u>(2,906,383)</u>
Total Capital Assets Being Depreciated, Net	<u>1,606,749</u>	<u>(77,178)</u>	<u>(61,454)</u>	<u>1,468,117</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,606,749</u>	<u>\$ (77,178)</u>	<u>\$ (61,454)</u>	<u>\$ 1,468,117</u>

Depreciation expense for the period was \$362,419, which is all shown as unallocated in the statement of activities.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)

Note 3 - Due to/From Other Fund and Interfund Transfers

The following is a summary of interfund receivables and payables reported in the fund shown as Due to/Due from Other Fund in the financial statements:

<u>Funds</u>	<u>Due To</u>	<u>Due From</u>
General Fund		\$ 140,136
Special Revenue Fund	\$ 398	
Agency Fund	139,738	

The Due to/from Other Fund represents the payment of expenditures by one fund for another and are to be repaid or assets held on behalf of another fund.

Interfund transfers represent the Charter School Capital Outlay funds received and transferred to the General Fund for payment of the building operating lease. The transfers during the year ended June 30, 2017, were as follows:

	<u>Transfer In</u>	<u>Transfer (Out)</u>
General Fund	\$ 875,849	
Capital Project Fund		\$ (875,849)

Note 4 - Federal and State Taxes

During 1999, the School was incorporated as a Florida not-for-profit corporation. However, the School may be subject to both state and federal income taxes.

Note 5 - Fund Balance Deficit

As of June 30, 2017, the fund balance in the general fund had a deficit of (\$1,571,217).

Note 6 - Related Party Transactions

During the year ended June 30, 2017, there were various transactions between the School and related parties. A listing of these transactions is as follows:

- The Villages of Lake Sumter, Inc., the incorporator of the School, leases the elementary school buildings to the School. Rent expense paid under this agreement was \$875,849.
- The Holding Company of The Villages made contributions in the amount of \$5,979,672 to the School for operating costs with accounts payable of \$73,486 as of and during the year ended June 30, 2017.
- The Holding Company of The Villages made a short-term advance in the amount of \$261,915 at year-end to cover operating expenses.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Continued)

Note 7 - Operating Leases

Buildings Lease Agreement

The School leases the elementary primary and intermediate buildings under a noncancellable operating lease agreement with The Villages of Lake Sumter, Inc. (a related party). The lease agreement has a 60-month term with two automatic 60-month extensions ending 2021, that is structured based upon the receipt of the School's State capital outlay funds provided by the District. Operating lease expenditures was \$875,849 for the year ended June 30, 2017. The future scheduled rent payments for the next five years based on the projected 2017-2018 fiscal year capital outlay funds are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 575,600
2019	575,600
2020	575,600
2021	575,600
Total	\$ 2,302,400

Copier Lease Agreements

The School has lease agreements for multiple copiers under a noncancellable operating lease. Each lease agreement has a 60-month term. Total lease expense for these agreements was \$31,807 for the year ended June 30, 2017. The future scheduled rent payments are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 28,037
2019	18,491
2020	13,246
2021	6,576
2022	5,241
Total	\$ 71,591

Note 8 - Defined Contribution Plan

The School provides a defined contribution plan administered by Wells Fargo. The name of the plan is The Villages Charter School, Inc. Employees Savings Plan, which qualifies as a 401(k) plan under the Internal Revenue Code.

The plan document allows employees to contribute up to 10% of their total salary for the fiscal year. The School is required to match 100% of the first 5% of the employee's contribution. Employees have 100% vesting in the plan for their portion of contributions, but must follow a graduated vesting schedule for the employers matching contributions. Total contributions made by the employer and employee were \$593,140 and \$894,047, respectively.

NOTES TO FINANCIAL STATEMENTS
THE VILLAGES CHARTER SCHOOL, INC.
(A CHARTER SCHOOL AND COMPONENT UNIT OF THE SUMTER
COUNTY DISTRICT SCHOOL BOARD) - THE VILLAGES, FLORIDA
(Concluded)

Note 9 - Risk Management Programs

General liability insurance is being provided through purchased commercial insurance. The School provides employee health insurance through a self-insurance program. Claims in excess of \$75,000 per employee are covered by purchased reinsurance. All claims submitted are processed by a third party administrator and are paid directly. Settled claims resulting from these risks have not exceeded commercial coverage in the last three years and there has not been a significant reduction in coverage during the fiscal year. The following is a summary of claims incurred and paid for the current and prior year:

<u>Year</u>	<u>Claims Payable Beginning of Year</u>	<u>Claims Incurred</u>	<u>Claims Paid</u>	<u>Claims Payable End of Year</u>
2016	\$ 459,922	\$ 2,373,165	\$ (2,470,794)	\$ 362,293
2017	362,293	2,406,548	(2,256,248)	512,593

Note 10 - Subsequent Events

The operating deficit in the General Fund was funded subsequent to year-end through contributions from The Holding Company of the Villages.

Note 11 - Lifelong Learning

The School was party to a lawsuit which resulted in the closure of the Lifelong Learning College effective December 31, 2016. The School paid a case settlement in the amount of \$250,000 during the fiscal year ended June 30, 2017.

Note 12 - Early Learning Programs

The Early Childhood Center and Little Buffalo Learning Center were transferred to form a new company, The Villages Early Learning Company, LLC, effective June 25, 2017. The School no longer operates these early learning programs.

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED
STATES, THE UNIFORM GUIDANCE, AND CHAPTER 10.850,
*RULES OF THE AUDITOR GENERAL***

**INDEPENDENT AUDITORS' 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***

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Villages Charter School, Inc. (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 24, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of the 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.

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309
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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

**INDEPENDENT AUDITORS' 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*
(Concluded)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



October 24, 2017
Ocala, Florida

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of 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 on the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the 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.

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(Concluded)**

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 our 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 the 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 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, as defined above. 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.

Durvis, Gray and Company, LLP

October 24, 2017
Ocala, Florida

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
THE VILLAGES, FLORIDA**

<u>GRANTOR/Pass-Through Agency(ies) Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education		
Passed thru the Sumter County School Board:		
Special Education – Grants to States (IDEA, Part B)	84.027A	\$ 51,339
Career and Technical Education (Perkins IV)	84.048A	4,952
Title II Part A	84.367A	<u>52,267</u>
Total U.S. Department of Education		<u>108,558</u>
U.S. Department of Agriculture		
Passed thru the Florida Department of Education:		
<i>Child Nutrition Cluster:</i>		
National School Lunch Program	10.555	625,191
School Breakfast Program	10.553	<u>107,425</u>
Total U.S. Department of Agriculture		<u>732,616</u>
Total Expenditures of Federal Awards		<u>\$ 841,174</u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
THE VILLAGES, FLORIDA
(Concluded)**

Note to Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Villages Charter School, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Indirect Cost Rate

The Villages Charter School received a negotiated cost rate for federal awards; therefore, The Villages Charter School did not elect the de minimus rate of 10% for determining indirect cost amounts.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
THE VILLAGES, FLORIDA**

1. Summary of Audit Results

I. Type of Auditors Report Issued on Financial Statements

Unmodified Opinion

II. Significant Deficiencies and/or Material Weaknesses in Internal Control over Financial Reporting

Audit disclosed no instances of significant deficiencies or material weaknesses in internal control over financial reporting.

III. Noncompliance Material to Financial Statements

Audit disclosed no material instances of noncompliance.

IV. Significant Deficiencies or Material Weaknesses in Internal Control Over Major Programs

Audit disclosed no instances of significant deficiencies or material weaknesses in internal control over major federal awards programs.

V. Type of Auditors Report Issued on Compliance With Requirements Applicable to the Major Programs

Unmodified Opinion

VI. Audit Findings Relative to Section .510(a) of the Uniform Guidance

The audit disclosed no findings required to be reported under Section .510(a) of the Uniform Guidance.

VII. Major Federal Programs

■ **U.S. Department of Agriculture**

Child Nutrition Cluster:

10.555 National School Lunch Program

10.553 School Breakfast Program

VIII. Dollar Threshold Used to Distinguish Between Type A and Type B Programs

\$750,000

IX. Auditee Qualification as Low-risk Auditee

The auditee did qualify as a low-risk auditee per criteria set forth in Section .530 of the Uniform Guidance.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017
THE VILLAGES CHARTER SCHOOL, INC.
THE VILLAGES, FLORIDA
(Concluded)**

2. **Findings Related to the Financial Statements Required to be Reported Under Generally Accepted Government Auditing Standards (GAGAS)**

The audit disclosed no findings which are required to be reported under GAGAS.

3. **Findings and Questioned Costs for Federal Awards Required to be Reported Under Section .510(a) of the Uniform Guidance**

The audit disclosed no findings, which are required to be reported under Section .510(a) of the Uniform Guidance.

4. **Status of Prior Audit Findings**

There were no prior audit findings.

MANAGEMENT LETTER

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

Report on the Financial Statements

We have audited the financial statements of The Villages Charter School, Inc. (the School), as of and for the year ended June 30, 2017, and have issued our report thereon dated October 24, 2017.

Auditors' 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 Auditors' 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*, Independent Auditors' Report on Compliance for Each Major Federal Program, and on Internal Control over Compliance, required by the Uniform Guidance and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated October 24, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Financial Condition

- Section 10.854(1)(e)2., *Rules of the Auditor General*, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
The Villages Charter School, Inc.
The Villages, Florida

MANAGEMENT LETTER
(Concluded)

Financial Condition (Concluded)

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

Durvis, Gray and Company, LLP

October 24, 2017
Ocala, Florida