

**BERKLEY CHARTER SCHOOL, 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, 2019**



**McCRADY & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS**

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**BERKLEY CHARTER SCHOOL, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Berkley Charter School, Inc. (the "School") offers the following narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2019. 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**

- ❖ For the fiscal year ended June 30, 2019, the School's revenues exceeded expenditures by approximately \$84,000, which resulted in an increase in total net position.
- ❖ The School remains in a strong financial position with a total fund balance of approximately \$2.4 million.
- ❖ The net position at fiscal year June 30, 2019 was \$257,000.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to 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. This document also includes the Report of Independent Auditor's 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*, 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 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 that are not directly related to the School's mission. For the year ended June 30, 2019, 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 annual budgets for its general fund and special revenue fund, as required by the Florida Statutes. The budgets are 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 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 15 of this report.

## GOVERNMENT-WIDE ANALYSIS OF THE SCHOOL

### Net Position

The School's combined net position as of June 30, 2019 and 2018 are summarized as follows:

	<b>Governmental Activities</b>		<b>Increase (Decrease)</b>
	<b>2019</b>	<b>2018</b>	
Current and other assets	\$ 2,698,549	\$ 2,570,966	\$ 127,583
Total assets			
Current and other liabilities	315,758	271,703	44,055
Fund balances:			
Nonspendable	126,574	99,245	27,329
Restricted	8,556	42,147	(33,591)
Assigned	665,662	651,859	13,803
Unrestricted	1,581,999	1,506,012	75,987
Total net position	\$ 2,382,791	\$ 2,299,263	\$ 83,528

The change in current and other assets is due to an increase in available cash and cash equivalents. Current and other liabilities increased due to the timing of local payables and accrued expenses. The change in fund balances is a result of the current year operations.

Management of the School has elected to change the presentation of the above schedule. Effective for the year ended June 30, 2019, the above schedule will be presented on a governmental fund balance presentation. Certain reclassifications were made to the fiscal 2018 balances to conform to the 2019 presentation.

## Change in Net Position

The School's total expenditures exceeded revenues total by approximately \$83,000 in fiscal 2019—see table below.

	<b>2019</b>	<b>2018</b>	<b>Increases (Decreases)</b>
<b>Revenues:</b>			
Federal sources	\$ 324,526	\$ 370,565	\$ (46,039)
State and local sources	5,036,252	4,875,537	160,715
Contributions and other revenues	1,093,636	1,021,571	72,065
Total revenues	<u>6,454,414</u>	<u>6,267,673</u>	<u>186,741</u>
<b>Expenses:</b>			
Instruction	4,093,020	4,101,539	(8,519)
Pupil personnel services	203,095	176,037	27,058
Instructional media services	55,308	54,570	738
Instructional staff training	21,600	44,465	(22,865)
Board	4,698	4,578	120
General administration	35,059	33,932	1,127
School administration	548,608	439,750	108,858
Fiscal services	65,126	69,532	(4,406)
Food services	477,594	467,855	9,739
Central services	59,987	18,958	41,029
Pupil transportation	224,038	201,939	22,099
Operation of plant	488,020	412,531	75,489
Community services	48,846	46,017	2,829
Interest	4,204	5,164	(960)
Capital outlay	<u>41,683</u>	<u>101,176</u>	<u>(59,493)</u>
Total expenses	<u>6,370,886</u>	<u>6,178,043</u>	<u>192,843</u>
Change in net position	<u>\$ 83,528</u>	<u>\$ 89,630</u>	<u>\$ (6,102)</u>

The increase in state and local revenues is due to an increase in the per-student state revenue allocation. The change in contributions and other revenues was primarily contributed to an increase in Pre-K revenue.

The School's base student population remained consisted at approximately 695 FTE students. All instructional and student related expenses remained consistent with prior years. However, the School had a minor increase in school administration and operation of plant due to an increase in salaries and related benefits.

## **FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

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

### **Governmental Funds**

The focus of the School's governmental funds is to provide information on near term inflows, outflows, and balances of usable resources. Such information is useful in assessing the School's financing requirements. Specifically, unassigned 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 \$2,382,791 and an unassigned spendable fund balance of \$1,581,999.

### **General and Special Revenue Fund Budgetary Highlights**

During the fiscal year, the School did not amend its general fund budget. Generally, budget amendments fall into one of the three categories: 1) amendments made to adjust the estimates 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 necessary to maintain services.

General fund actual revenues exceeded budgeted amounts by approximately \$817,000 due to the internal funds not being included in the general fund budget, primarily due to the nature of the funds. Actual expenditures were approximately \$797,000 higher than final budgeted amounts, before other financial sources and uses primarily for the same reason as above.

Special revenue fund actual revenues were less than budgeted amounts by approximately \$18,000. Actual expenditures were approximately \$9,000 higher than final budgeted amounts, exclusive of other financial sources.

## **CAPITAL ASSETS**

At the end of fiscal 2019, the School had invested approximately \$1,960,000 in capital assets.

	Governmental Activities		Increase (Decrease)
	2019	2018	
Furniture, fixtures, and equipment	\$ 474,738	\$ 459,240	\$ 15,498
Vehicles	1,106,606	1,106,606	-
Building improvements	281,291	255,106	26,185
Computer software	91,704	91,704	-
Total capital assets	<u>\$ 1,954,339</u>	<u>\$ 1,912,656</u>	<u>\$ 41,683</u>

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

- Equipment - \$15,500
- Building improvement - \$26,000

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

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

### **Budget Highlights for the Fiscal Year Ended June 30, 2020**

Amounts available for appropriation in the general fund are approximately \$5.15 million, a budgeted decrease of approximately \$782,000 from 2019 actual amount. The change is due to the internal funds are not included in the operating budget.

Budgeted expenditures in the general fund are approximately \$5.09 million, which is a decrease from the 2019 actual amount exclusive of expenditures from internal funds.

If these estimates are realized, the School's general fund balance is expected to increase slightly by the fiscal year ending June 30, 2020.

The special revenue fund should remain relatively consistent with 2019 for fiscal year June 30, 2020.

## **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 5240 Berkley Road, Auburndale, Florida, 33823.



## **Report of Independent Auditor's on Basic Financial Statements and Supplementary Information**

To the Board of Directors of Berkley Charter School, 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 Berkley Charter School, 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, 2019, 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 positions of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2019, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and pension liability on pages 1-6 and 33-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2019, 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, 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.

*McCrady & Associates, PLLC*

Altamonte Springs, Florida  
September 21, 2019

**BERKLEY CHARTER SCHOOL, INC.**

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

**Statement of Net Position**

**June 30, 2019**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,831,675
Investments	740,300
Other assets	126,574
Capital assets:	
Furniture, fixtures and equipment	474,738
Vehicles	1,106,606
Building improvements	281,291
Computer software	91,704
Less accumulated depreciation	<u>(1,569,570)</u>
Total capital assets, net	<u>384,769</u>
Total assets	<u>\$ 3,083,318</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	
Amount deferred on pension liability	1,355,268
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 315,758
Compensated absences payable	199,043
Long-term liabilities:	
Pension liability	<u>3,310,469</u>
Total liabilities	<u>3,825,270</u>
<b>DEFERRED INFLOW OF RESOURCES</b>	
Amount deferred on pension liability	341,743
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	384,769
Unrestricted	<u>(113,196)</u>
Total net position	<u>\$ 271,573</u>

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

**BERKLEY CHARTER SCHOOL, 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, 2019**

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	
						<b>Total</b>
Instruction	\$ 4,386,886	\$ 257,222	\$ -	\$ -	\$ (4,129,664)	\$ (4,129,664)
Pupil personnel services	198,365	-	58,349	-	(140,016)	(140,016)
Instructional media services	55,308	-	-	-	(55,308)	(55,308)
Instructional staff training	21,600	-	19,933	-	(1,667)	(1,667)
Board	4,698	-	-	-	(4,698)	(4,698)
General administration	35,059	-	-	-	(35,059)	(35,059)
School administration	460,701	-	-	-	(460,701)	(460,701)
Facilities acquisition and construction	6,797	-	-	-	(6,797)	(6,797)
Fiscal services	65,126	-	-	-	(65,126)	(65,126)
Food services	468,726	197,759	246,244	-	(24,723)	(24,723)
Central services	60,540	-	-	-	(60,540)	(60,540)
Pupil transportation	284,368	-	-	-	(284,368)	(284,368)
Operation of plant	482,033	-	-	-	(482,033)	(482,033)
Community service	48,846	69,190	-	-	20,344	20,344
Total primary government	<u>\$ 6,579,053</u>	<u>\$ 524,171</u>	<u>\$ 324,526</u>	<u>\$ -</u>	<u>(5,730,356)</u>	<u>(5,730,356)</u>
General revenues:						
State and local sources					5,036,252	5,036,252
Contributions and other revenues					565,261	565,261
Total general revenues					<u>5,601,513</u>	<u>5,601,513</u>
Change in net position					<u>(128,843)</u>	<u>(128,843)</u>
Net position at beginning of year					<u>400,416</u>	<u>400,416</u>
Net position at end of year					<u>\$ 271,573</u>	<u>\$ 271,573</u>

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

**BERKLEY CHARTER SCHOOL, INC.**

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

**Balance Sheet - Governmental Funds**

**June 30, 2019**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,708,888	\$ 122,787	\$ 1,831,675
Investments	740,300	-	740,300
Other assets	126,574	-	126,574
Due from special revenue fund	106,686	-	106,686
 Total assets	 <u>\$ 2,682,448</u>	 <u>\$ 122,787</u>	 <u>\$ 2,805,235</u>
 <b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 315,758	\$ -	\$ 315,758
Due to general fund	- <u>106,686</u>	 <u>106,686</u>	 <u>106,686</u>
 Total liabilities	 <u>315,758</u>	 <u>106,686</u>	 <u>422,444</u>
 <b>FUND BALANCES</b>			
Nonspendable:			
Other current assets	126,574	-	126,574
Restricted:			
Food services	- <u>16,101</u>	 <u>16,101</u>	 <u>16,101</u>
Assigned:			
Designated for school-based student activity organizations	665,662	-	665,662
Spendable:			
Unassigned	1,574,454	-	1,574,454
 Total fund balances	 <u>2,366,690</u>	 <u>16,101</u>	 <u>2,382,791</u>
 Total liabilities and fund balances	 <u>\$ 2,682,448</u>	 <u>\$ 122,787</u>	 <u>\$ 2,805,235</u>

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

**BERKLEY CHARTER SCHOOL, 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, 2019**

<b>Total fund balances - governmental funds</b>	\$ 2,382,791
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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 the governmental funds. The cost of the capital assets is \$1,954,339, and the accumulated depreciation is \$1,569,570.

384,769

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.

(199,043)

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.

Pension liability (3,310,469)

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.

1,013,525

<b>Total net position - governmental activities</b>	<u>\$ 271,573</u>
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The accompanying notes to financial statements are an integral part of this statement.

**BERKLEY CHARTER SCHOOL, 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, 2019**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Federal sources passed through local school district	\$ -	\$ 324,526	\$ 324,526
State and local sources	5,036,252	-	5,036,252
Contributions and other revenues	891,673	197,759	1,089,432
<b>Total revenues</b>	<b>5,927,925</b>	<b>522,285</b>	<b>6,450,210</b>
<b>EXPENDITURES</b>			
Current:			
Instruction	4,154,159	58,349	4,212,508
Pupil personnel services	198,137	-	198,137
Instructional media services	55,308	-	55,308
Instructional staff training	1,667	19,933	21,600
Board	4,698	-	4,698
General administration	35,059	-	35,059
School administration	460,244	-	460,244
Fiscal services	65,126	-	65,126
Food services	-	467,556	467,556
Central services	59,987	-	59,987
Pupil transportation	224,038	-	224,038
Operation of plant	471,892	-	471,892
Community service	48,846	-	48,846
Capital outlay	39,190	2,493	41,683
<b>Total expenditures</b>	<b>5,818,351</b>	<b>548,331</b>	<b>6,366,682</b>
Net changes in fund balances	109,574	(26,046)	83,528
Fund balances at beginning of year	2,257,116	42,147	2,299,263
<b>Fund balances at end of year</b>	<b>\$ 2,366,690</b>	<b>\$ 16,101</b>	<b>\$ 2,382,791</b>

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

**BERKLEY CHARTER SCHOOL, 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, 2019**

<b>Net changes in fund balances - total governmental funds</b>	\$ 83,528
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$93,226) exceeds capital outlays (\$41,683) in the current period. (51,543)

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.

(160,828)

<b>Change in net position of governmental activities</b>	<u>\$ (128,843)</u>
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The accompanying notes to financial statements are an integral part of this statement.

**BERKLEY CHARTER SCHOOL, 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, 2019**

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

**Organization**

Berkley Charter School, 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 comprised of five members. Effective July 1, 2003, 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 District). The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board (GASB).

**Charter Contract**

The current charter expires June 30, 2027 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. 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 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 a private-sector business. The statement of net position and statement of activities are designed to provide financial information about the School as a whole 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.

**BERKLEY CHARTER SCHOOL, INC.**

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

**Notes to 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 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 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 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 are established by law while others are created by grant agreements. The following are governmental funds reported in the 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 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.

For the purpose of these statements, the general and special revenue funds are considered major funds. The debt service fund is a non-major fund and 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.

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. When grant terms provide

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that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenues are recognized at the time the expenditure is made.

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 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, 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 investments entity at June 30, 2019.

**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 to/from other funds. The general fund has recorded total receivables of approximately \$114,000 which are related to amounts paid by the general fund of behalf of the special revenue fund.

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**Interfund Transfers**

The School reports its debt service fund expenditures in the other governmental funds. For the year ended June 30, 2019, the general funds transferred approximately \$64,500 to other governmental funds for the current year debt service payments.

**Capital Assets and Depreciation**

The School's capital assets with useful lives of more than one year are stated at historical cost and are 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 asset value or extend the useful life are not capitalized. Depreciation is computed using the straight-line method. Estimated useful lives of the assets are as follows:

	<b>Years</b>
Furniture, fixtures, and equipment	3 – 10
Vehicles	10
Building improvements	10 – 20
Computer software	3 – 5

**Compensated Absences**

Compensated absences (i.e. paid absences for employee vacation leave and sick leave) are recorded as an expenditure 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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan 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 6.

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**Net Position and Fund Balance Classifications**

*Government-wide financial statements*

The 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) legally restricted to expenditures for specified purposes.

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**Order of Fund Balance Spending Policy**

The School's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including nonspendable amounts). Any remaining fund balance amounts for the non-general funds are to be classified as restricted fund balance. It is possible for the non-general funds to be classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when non-spendable amounts plus the amount of restricted fund balances for specific purposes 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 on pension reported in the government-wide statement of net position. The deferred outflows of resources related to pensions are discussed in a subsequent note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School has one item, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category, which is the deferred amount on pension reported in the government-wide statement of net position. A deferred amount on 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 provide with pensions through the pension plan except earnings which are amortized over 5 years.

**Revenue Sources**

Revenues for operations are received 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 District. The School Board receives a 2% administrative fee from the School, which is withheld from the respective 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 gross FEFP revenue, up to 250 students. The difference between the actual fee and the fee as calculated on total FEFP revenue is restricted for capital outlay expenditures. As of June 30, 2019, the School had no restricted funds for this purpose.

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Under provisions of Section 1011.62, Florida Statutes, the District reports the number of students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the 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, 2019, the School reported 694.983 unweighted FTE.

The School received additional funding under other federal grants. This assistance is generally received based on applications submitted to various granting agencies. For federal 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).

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.

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*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 4.3%. There were no changes in valuation techniques during the year.

The carrying values of cash and cash equivalents, cash restricted for long-term purposes, receivables and the accounts 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, 2019, are as follows:

	Level 1	Level 2	Level 3	Total
Investments	\$ 697,765	\$ -	\$ 42,535	\$ 740,300
Deferred outflows related				
to pension liability	-	-	1,355,268	1,355,268
Pension liability	-	-	(3,310,469)	(3,310,469)
Deferred inflows related				
to pension liability	-	-	(341,743)	(341,743)
Total	<u>\$ 697,765</u>	<u>\$ -</u>	<u>\$ (2,254,409)</u>	<u>\$ (1,556,644)</u>

**3 INVESTMENTS**

The School had the following investments and maturities as of June 30, 2019:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1 - 5
Equity mutual funds	\$ 315,070	\$ 315,070	\$ -
Exchange traded equity funds	289,757	289,757	-
Bond funds	79,381	79,381	-
Alternative investments	42,535	-	42,535
Cash and cash equivalents	13,557	13,557	-
Total investments	<u>\$ 740,300</u>	<u>\$ 697,765</u>	<u>\$ 42,535</u>

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Interest Rate Risk – as a method to limit its exposure to fair value losses, the School's investment policy strictly adheres to Section 218.415 of the 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, 2019.

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>
Columbia Funds	\$ 161,434	21%
JP Morgan	109,481	15%

**4 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental activities:</b>				
Furniture, fixtures, and equipment	\$ 459,240	\$ 15,498	\$ -	\$ 474,738
Vehicles	1,106,606	-	-	1,106,606
Building improvements	255,106	26,185	-	281,291
Computer software	91,704	-	-	91,704
Total capital assets	<u>1,912,656</u>	<u>41,683</u>	<u>-</u>	<u>1,954,339</u>
<b>Less accumulated depreciation:</b>				
Furniture, fixtures, and equipment	(398,683)	(21,098)		(419,781)
Vehicles	(795,334)	(60,331)		(855,665)
Building improvements	(190,623)	(11,797)		(202,420)
Computer software	(91,704)	-		(91,704)
Total accumulated depreciation	<u>(1,476,344)</u>	<u>(93,226)</u>	<u>-</u>	<u>(1,569,570)</u>
Capital assets, net	<u>\$ 436,312</u>	<u>\$ (51,543)</u>	<u>\$ -</u>	<u>\$ 384,769</u>

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**Depreciation expense:**

Instruction	\$ 13,550
Pupil personnel services	228
School administration	457
Facility acquisition	6,797
Food service	1,170
Central services	553
Transportation services	60,330
Operation of plant	<u>10,141</u>
Total governmental activities depreciation expense	<u>\$ 93,226</u>

**5 RETIREMENT PLANS**

**PENSION PLANS**

The Florida Department of Management Services, Division of Retirement (“Division”), is part of the primary government of the state of Florida and is responsible for administering the Florida Retirement System Pension Plan and Other State-Administered Systems (“System”). The School participates in two defined benefit plans administered by the Division. The Division issued a publicly available, audited comprehensive annual financial report (CAFR) on behalf of the system that includes financial statements, notes and required supplementary information for each of the pension plans. Detailed information about the plans is provided in the CAFR, which is available online, or by contacting the Division.

**Cost-Sharing Defined Benefit Plans**

As required by Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), this report includes the allocation of the collective net pension liability and associated pension expense, deferred outflows of resources and deferred inflows of resources for each of the participating employers in the system’s cost-sharing, multiple employer defined benefit plans:

- The Florida Retirement System (“FRS”) Pension Plan is a cost-sharing, multiple-employer qualified defined benefit pension plan with a Deferred Retirement Option Program (“DROP”) available for eligible employees. The FRS was established and is administered in accordance with Chapter 121, Florida Statutes. The Florida Legislature establishes and amends the contribution requirements and benefit terms of the FRS Pension Plan. Retirees receive a lifetime pension benefit with joint and survivor payment options. FRS membership is compulsory for employees filling regularly established positions in a state agency, county agency, state university, state community college, or district school board, unless restricted from FRS membership under sections 121.053 and 121.122, Florida Statutes, or allowed to participate in a nonintegrated defined contribution plan in lieu of

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FRS membership. Participation by cities, municipalities, special districts, charter schools and metropolitan planning organizations is optional.

- The Retiree Health Insurance Subsidy ("HIS") Program is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with section 112.363, Florida Statutes. The Florida Legislature establishes and amends the contribution requirements and benefit terms of the HIS Program. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. For the fiscal year ended, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which may include Medicare.

**Employer Contributions**

Employee contributions required pursuant to section 121.71(3), Florida Statutes, are accounted for by the FRS as employer-paid employee contributions and are treated as employer contributions under 26 U.S.C. s. 414(h)(2) allowing these contributions to be deducted on a pre-tax basis. Pension expense reported in the pension allocation schedules is reduced by these amounts.

Total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes. Employer contributions reflected in the financial statements and in the pension allocation schedules for the cost-sharing defined benefit plans represent contributions specific to each defined benefit plan and do not equal total blended contributions remitted by the employer.

Contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer
Regular class	3%	8.26%
Senior management	3%	24.06%
Drop	N/A	14.03%

**Actuarial Methods and Assumptions**

The Florida Retirement System (FRS) Actuarial Assumption Conference is responsible for setting the assumptions used in the funding valuations of the defined benefit pension plan pursuant to section 216.136(10), Florida Statutes. The Division determines the assumptions in the valuations for GASB 67 reporting purposes. The FRS Pension Plan's GASB 67 valuation is performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS

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Pension Plan was completed in 2014 for the period July 1, 2008, through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study for the FRS Pension Plan.

The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth, including inflation, for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.00%. 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.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.58% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables (refer to the valuation reports for more information – see Note 5).

The following changes in actuarial assumptions occurred in 2018:

- FRS: The long-term expected rate of return was decreased from 7.10% to 7.00%, and the active member mortality assumption was updated.
- HIS: The municipal rate used to determine total pension liability was increased from 3.58% to 3.87%.

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the collective net pension liability of the participating employers if the discount rate was 1.00% higher or 1.00% lower than the current discount rate at June 30, 2018.

<b>School's Proportionate Share of FRS Net Pension Liability</b>			<b>School's Proportionate Share of HIS Net Pension Liability</b>		
1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
6.00%	7.00%	8.00%	2.87%	3.87%	4.87%
\$ 3,967,051	\$ 2,173,677	\$ 684,173	\$ 1,294,740	\$ 1,136,792	\$ 1,005,134

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**The Pension Plan's Fiduciary Net Position**

The components of the collective net position liability of the participating employers for each defined benefit plan for the measurement date of June 30, 2018 are shown below (in thousands):

	<b>FRS</b>	<b>HIS</b>
Total pension liability	\$ 191,317,399	\$ 10,816,576
Plan fiduciary net position	<u>(161,196,881)</u>	<u>(232,463)</u>
Net pension liability	<u>\$ 30,120,518</u>	<u>\$ 10,584,113</u>

Plan fiduciary net position as a percentage

Of the total pension liability	84.26%	2.15%
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The total pension liability for the FRS was determined by the plan's actuary and reported in the plan's GASB 67 valuation as of June 30, 2018. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

The total pension liability for the HIS was determined by the plan's actuary and reported in the plan's GASB 67 valuation as of June 30, 2018. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:**

At June 30, 2018, the School reported a liability of \$2,173,677 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The School's proportionate share of the net pension liability was based on the School's 2017-18 fiscal year contributions relative to the 2016-17 fiscal year contributions of all participating members.

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The School's proportions are as follows:

	<b>FRS</b>	<b>HIS</b>
June 30, 2018	.007216%	.01074%
June 30, 2017	<u>.007212%</u>	<u>.01007%</u>
Change	<u>.000004%</u>	<u>.0007%</u>

In accordance with GASB 68, paragraphs 54 and 71, changes in the School's proportionate share of the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current reporting period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Changes of assumptions or other inputs – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Changes in proportion and differences between contributions and proportionate share of contributions amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Differences between expected and actual earnings on pension plan investments – amortized over five years.

Employer contributions to the pension plans from the School's employers are not included in collective pension expense; however, employee contributions are used to reduce pension expense. The average expected remaining service life of all employees provided with pensions through the pension plans at June 30, 2018, was 6.4 years for FRS and 7.2 years for HIS.

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At June 30, 2018, the School reported deferred outflows of resources and deferred inflow of resources related to the pensions from the following sources:

<b>Description</b>	<b>FRS</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 184,143	\$ 6,684
Changes of assumptions	710,252	-
Net difference between projected and actual earnings investments	-	167,943
Employer-specific amounts due to changes in employer proportion	9,054	40,585
School FRS contributions subsequent to the measurement date	228,631	-
<b>Total</b>	<b>\$ 1,132,080</b>	<b>\$ 215,212</b>

<b>Description</b>	<b>HIS</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 17,404	\$ 1,931
Changes of assumptions	126,425	120,191
Net difference between projected and actual earnings investments	686	-
Employer-specific amounts due to changes in employer proportion	18,189	4,409
School FRS contributions subsequent to the measurement date	60,484	-
<b>Total</b>	<b>\$ 223,188</b>	<b>\$ 126,531</b>

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Deferred outflows of resources related to employer contributions paid subsequent to the measurement date and prior to the employer's fiscal year end will be recognized as a reduction of the net pension liability in the subsequent reporting period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

Measurement period ending June 30,	<b>FRS Expense</b>	<b>HIS Expense</b>
2019	\$ 266,652	\$ 15,564
2020	181,979	15,507
2021	25,373	10,864
2022	121,174	2,440
2023	81,024	(15,146)
Thereafter	<u>12,035</u>	<u>6,944</u>
 Total	 <u>\$ 688,237</u>	 <u>\$ 36,173</u>

**6 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES**

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

Florida Education Finance Program	\$ 3,033,455
Class size reduction	845,646
Discretionary millage funds	181,660
Discretionary tax equalization allocation	181,098
Supplemental academic instruction	179,500
ESE guaranteed allocation	150,037
Transportation	117,390
Best and Brightest	79,056
School recognition funds	69,603
Instructional materials	54,571
Funds compression allocation	51,557
Safe schools	34,806
Reading allocation	29,082
Teacher lead	14,536
Digital classroom allocation	12,069
Discretionary lottery funds	2,298
Proration to funds available	(112)
Total	<u>\$ 5,036,252</u>

The administrative fee paid to the School Board during the year ended June 30, 2019 totaled approximately \$35,000 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.

**BERKLEY CHARTER SCHOOL, INC.**

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

**Notes to Financial Statements  
(continued)**

**7 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.

**8 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 at year end may be impaired.

Management 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.

**9 CAMPUS FACILITY**

Title to the school building and facilities and other capital assets acquired prior to July 1, 2003 remains 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 teachers who organize the charter school.

Management believes the value of the facilities utilized by the School is 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, 2003 also remained with the School Board. However, during fiscal year 2013, the School Board transferred ownership, title and all inherent duties related to these capital assets located on the School campus to Berkley Charter School, Inc.

**BERKLEY CHARTER SCHOOL, INC.**

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

**Notes to Financial Statements  
(continued)**

**10 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 tax years 2018, 2017, and 2016 are subject to examination by tax authorities, and may change upon examination.

**11 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 15, 2019, which is the date the financial statements were available to be issued.

**BERKLEY CHARTER SCHOOL, INC.**

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

**Required Supplementary Information**

**Budgetary Comparison Schedule - General Fund**

**For the Year Ended June 30, 2019**

	<b>Budgeted Amounts</b>			
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>				
State and local sources	\$ 4,945,156	\$ 4,945,156	\$ 5,036,252	\$ 91,096
Contributions and other revenues	165,000	165,000	891,673	726,673
Total revenues	<u>5,110,156</u>	<u>5,110,156</u>	<u>5,927,925</u>	<u>817,769</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	3,515,887	3,515,887	4,154,159	638,272
Pupil personnel services	142,792	142,792	198,137	55,345
Instructional media services	37,283	37,283	55,308	18,025
Instructional staff training	44,000	44,000	1,667	(42,333)
Board	6,270	6,270	4,698	(1,572)
General administration	34,710	34,710	35,059	349
School administration	416,877	416,877	460,244	43,367
Fiscal services	68,000	68,000	65,126	(2,874)
Central services	20,000	20,000	59,987	39,987
Pupil transportation	217,511	217,511	224,038	6,527
Operation of plant	498,250	498,250	471,892	(26,358)
Community services	-	-	48,846	48,846
Capital outlay	19,884	19,884	39,190	19,306
Total expenditures	<u>5,021,464</u>	<u>5,021,464</u>	<u>5,818,351</u>	<u>796,887</u>
Excess (deficiency) of revenues over expenditures	88,692	88,692	109,574	20,882
<b>OTHER FINANCIAL SOURCES (USES)</b>				
Operating transfer out	(64,500)	(64,500)	-	64,500
Total other financial sources	(64,500)	(64,500)	-	64,500
Net changes in fund balances	24,192	24,192	109,574	85,382
Fund balances at beginning of year	<u>1,874,775</u>	<u>1,874,775</u>	<u>2,257,116</u>	<u>382,341</u>
Fund balances at end of year	<u>\$ 1,898,967</u>	<u>\$ 1,898,967</u>	<u>\$ 2,366,690</u>	<u>\$ 467,723</u>

See Independent Auditor's Report.

**BERKLEY CHARTER SCHOOL, INC.**

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

**Budgetary Comparison Schedule - Special Revenue Fund**

**For the Year Ended June 30, 2019**

	<b>Budgeted Amounts</b>			
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>				
Federal sources passed through local school district	\$ 337,549	\$ 337,549	\$ 324,526	\$ (13,023)
Contributions and other revenues	203,000	203,000	197,759	(5,241)
Total revenues	<u>540,549</u>	<u>540,549</u>	<u>522,285</u>	<u>(18,264)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	58,349	58,349	58,349	-
Instructional staff training	-	-	19,933	19,933
Food services	478,550	478,550	467,556	(10,994)
Total expenditures	<u>536,899</u>	<u>536,899</u>	<u>545,838</u>	<u>8,939</u>
Net changes in fund balances	3,650	3,650	(23,553)	(27,203)
Fund balances at beginning of year	-	-	42,147	42,147
Fund balances at end of year	<u>\$ 3,650</u>	<u>\$ 3,650</u>	<u>\$ 18,594</u>	<u>\$ 14,944</u>

See Independent Auditor's Report.

**BERKLEY CHARTER SCHOOL**

**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-  
Florida Retirement System Pension Plan**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's proportion of the FRS net pension liability (asset)	0.0072%	0.0072%	0.0076%	0.0076%	0.0075%
School's proportionate share of the FRS net pension liability (asset)	\$ 2,173,677	\$ 2,133,471	\$ 1,813,812	\$ 978,878	\$ 456,680
School's covered-employee payroll	\$ 3,874,231	\$ 3,531,177	\$ 3,426,077	\$ 2,512,300	\$ 3,226,559
School's proportionate share if the FRS net pension liability (asset) as a percentage of its covered-employee payroll	56.11%	60.42%	52.94%	38.96%	14.15%
FRS Plan fiduciary net position as a percentage of the total pension liability	65.66%	65.03%	59.05%	47.28%	31.61%

**Schedule of School Contributions  
Florida Retirement System Pension Plan**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required FRS contribution	\$ 228,631	\$ 205,667	\$ 187,765	\$ 175,178	\$ 184,773
FRS contribution in relation to the contractually required FRS contribution	(228,631)	(205,667)	(187,765)	(175,178)	(184,773)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
School's covered employee payroll	\$ 3,874,231	\$ 3,531,177	\$ 3,426,077	\$ 2,512,300	\$ 3,226,559
FRS contribution as a percentage of covered employee payroll	5.90%	5.82%	5.48%	6.97%	5.73%

See Independent Auditor's Report.

**BERKLEY CHARTER SCHOOL**

**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 Insurance Subsidy Pension Plan**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's proportion of the HIS net pension liability (asset)	0.0107%	0.0107%	0.0107%	0.0108%	0.0106%
School's proportionate share of the HIS net pension liability (asset)	\$ 1,136,792	\$ 1,147,522	\$ 1,258,003	\$ 1,091,655	\$ 987,867
School's covered-employee payroll	\$ 3,874,231	\$ 3,531,177	\$ 3,426,077	\$ 2,512,300	\$ 3,226,559
School's proportionate share if the HIS net pension liability (asset) as a percentage of its covered-employee payroll	29.34%	32.50%	36.72%	43.45%	30.62%
HIS Plan fiduciary net position as a percentage of the total pension liability	42.20%	42.20%	42.20%	52.72%	68.39%

**Schedule of School Contributions  
Health Insurance Subsidy Pension Plan**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required HIS contribution	\$ 60,484	\$ 58,246	\$ 56,797	\$ 55,326	\$ 40,918
HIS contribution in relation to the contractually required HIS contribution	(60,484)	(58,246)	(56,797)	(55,326)	(40,918)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
School's covered-employee payroll	\$ 3,874,231	\$ 3,531,177	\$ 3,426,077	\$ 2,512,300	\$ 3,226,559
HIS contribution as a percentage of covered employee payroll	1.56%	1.65%	1.66%	2.20%	1.27%

See Independent Auditor's Report.

**BERKLEY CHARTER SCHOOL, INC.**

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

**Notes to Financial Statements  
(continued)**

**1 BUDGETARY BASIS OF ACCOUNTING**

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



McCRADY & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS

**Report of Independent Auditor's 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 Berkley Charter School, 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 for Berkley Charter School, 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, 2019, 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 21, 2019.

**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.

*McCrady & Associates, PLLC*

Altamonte Springs, Florida  
September 21, 2019

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107 Water Oak Lane | Altamonte Springs, FL 32714  
Office 407-960-4429 ■ [admin@mccradyandassociates.com](mailto:admin@mccradyandassociates.com)  
[www.mccradyandassociates.com](http://www.mccradyandassociates.com)

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



**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 Berkley Charter School, 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 Berkley Charter School, Inc. (the "School") as of and for the fiscal year ended June 30, 2019, and have issued our report thereon dated September 21, 2019.

**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; and Chapter 10.850, Rules of the Auditor General.

**Other Reporting Requirements**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards. Disclosures in that report, if applicable, which is dated, September 21, 2019, 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 be disclosed in this management letter. The official title of the entity is Berkley Charter School, Inc. The School code is 1531.

## **Financial Condition and Management**

Sections 10.854(1)(e)2., and 10.855(11). Rules of the Auditor General, require us to apply appropriate procedures and communicate whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify 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.

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

## **Transparency**

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require us to apply appropriate procedures and communicate 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.

## **Additional Matters**

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 note 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.

*McCrady & Associates, PLLC*

Altamonte Springs, Florida  
September 21, 2019

**107 Water Oak Lane | Altamonte Springs, FL 32714  
Office 407-960-4429 ■ [admin@mccradyandassociates.com](mailto:admin@mccradyandassociates.com)  
[www.mccradyandassociates.com](http://www.mccradyandassociates.com)**

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