

NORTH COUNTY CHARTER SCHOOL, INC.

**Basic Financial Statements
with
Independent Auditors' Report**

Year ended June 30, 2016

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To the Board of Directors
North County Charter School, Inc.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North County Charter School, Inc., as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof 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 on pages 4-8 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 August 22, 2016, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants

August 22, 2016

**NORTH COUNTY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

As management of North County Charter School, Inc. (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016. This overview and analysis is required by generally accepted accounting principles (GAAP) in the United States of America and in Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34).

FINANCIAL HIGHLIGHTS

- The assets of the School as reported in the government-wide financial statements exceeded its liabilities at the close of the current fiscal year by \$3,292,039 (net position). Of this amount, \$1,305,820 (unrestricted net position) may be used to meet the ongoing obligations of the School. The School's total net position increased by \$578,455 or 21% in comparison with the prior year net position.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$1,349,726, or 60% of total expenditures. The School's combined ending fund balances increased by \$452,072 or 50% in comparison with the prior year balances. \$1,305,820 of the \$1,349,726 is available for spending at the School's discretion (unassigned fund balance) and has been appropriated in the subsequent year's budget. The remaining \$43,906 has been designated for capital projects.
- Net investment in capital assets increased over the prior year by \$126,383, or 7%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements comprise five components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) supplementary auditors' reports.

Government-wide financial statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the School's assets (both short-term spendable resources and capital assets) and liabilities, with the difference between the two reported as *net position*. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *statement of activities* presents information showing how the School's net position changed during the most recent fiscal year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements present functions of the School that are principally supported by local revenues (FTE dollars through the Indian River County School District) (*governmental activities*) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The School has no business-type activities and no component units for which they are financially accountable. The government-wide financial statements can be found on pages 9 and 10 of this report.

**NORTH COUNTY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Fund financial statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds used by the School are considered governmental fund types.

Governmental fund – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The School maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The School adopts an annual appropriated budget for all funds. Government accounting standards require the School to report a budgetary comparison statement for the general fund and any major special revenue funds. A budgetary comparison statement has been provided for the general fund. The School has no major special revenue funds. The basic governmental fund financial statements can be found on pages 11 - 14 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 - 24 of this report.

Required supplementary information – The information in this section is required by the Governmental Accounting Standards Board (GASB). It consists of the Management's Discussion and Analysis (MD&A).

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$3,292,039 at June 30, 2016.

A portion of the School's net position (59%) reflects its net investment in capital assets (e.g. land, buildings, equipment and furniture). The School has related debt outstanding as of June 30, 2016, of \$3,066,908 that was used to acquire these assets. The School uses these capital assets to provide educational services; consequently, these assets are *not* available for future spending.

**NORTH COUNTY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

NORTH COUNTY CHARTER SCHOOL, INC.'S NET POSITION

	2016	2015
Current assets	\$ 1,349,726	\$ 897,654
Capital assets, net	5,009,221	5,078,853
Total assets	6,358,947	5,976,507
Current liabilities	204,438	196,650
Long-term liabilities	2,862,470	3,066,273
Total liabilities	3,066,908	3,262,923
Net position:		
Net investment in capital assets	1,942,313	1,815,930
Restricted for:		
Capital projects	43,906	57,256
Unrestricted	1,305,820	840,398
Total net position	\$ 3,292,039	\$ 2,713,584

An additional portion of the School's net position (40%) represents an *unrestricted net position* that is available to meet the financial obligations of the School. A final portion of the School's net position (1%) is restricted for capital projects. At the end of the current fiscal year, the School is able to report positive balances in all categories of net position.

**NORTH COUNTY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

NORTH COUNTY CHARTER SCHOOL, INC.'S CHANGE IN NET POSITION

	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 98,319	\$ 87,704
Operating grants and contributions	193,548	144,817
Capital grants and contributions	67,247	87,089
General revenues:		
FTE non-specific revenues	2,295,861	1,908,088
Unrestricted investment earnings	3,132	-
Loss on sale of assets	(539)	-
Gifts, grants and bequests not restricted to specific programs	42,420	23,091
Total revenues	2,699,988	2,250,789
Expenses:		
Instruction	1,197,400	995,672
Parental involvement	239	378
Instructional staff training	138	700
Board	17,378	1,435
School administration	304,804	254,657
Facilities acquisition and construction	400	6,770
Fiscal services	12,720	12,350
Food services	160,201	127,616
Transportation	24,856	25,102
Operation of plant	166,329	156,105
Maintenance of plant	9,167	18,318
Interest on long-term debt	120,917	127,787
Depreciation - unallocated	106,984	104,853
Total expenses	2,121,533	1,831,743
Increase in net position	578,455	419,046
Net position, beginning of year	2,713,584	2,294,538
Net position, end of year	\$ 3,292,039	\$ 2,713,584

Governmental activities – The School relies heavily on general revenues (i.e. FTE dollars) to fund the expenses of the governmental activities. Program revenues consisting of capital and operating grants comprise 13% of total revenues. General revenues comprise 87% of total revenues.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and segregation for particular purposes.

**NORTH COUNTY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Governmental funds – The focus of the School's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a School's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$1,349,726, an increase of \$452,072 over the previous fiscal year. The fund balance consists of *unassigned fund balance*, which is available for spending at the School's discretion, with a portion (\$43,906) designated for capital projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

- The original budget was amended, and approved by the School's Board of Directors, for fiscal year June 30, 2016, to adjust allocation of expenses and to increase funding due to an increase in enrollment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – The School's investment in capital assets for its governmental activities as of June 30, 2016, amounted to \$5,009,221 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and furniture. Additional information on the School's capital assets can be found in Notes 1 and 2 on pages 17 and 21 of this report.

Long-term debt – The School has related debt outstanding as of June 30, 2016, of \$3,066,908 that was used to acquire these assets. Additional information on the School's long-term debt can be found in Notes 1 and 3 on pages 17 and 22 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The School received the majority of its revenues from FTE dollars provided by Indian River County School District.
- Indian River County School District retains approximately 1.55% administrative costs on revenues.
- The Charter School's enrollment is at 100%.
- The Charter School has estimated revenues and appropriations in the fiscal year 2016-17 budget of \$2,855,328. Appropriations include an additional \$103,000 and \$67,000 for instructional, administrative and operational salary/wage increases.

All of these factors were considered in preparing the School's budget for the 2016-17 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Ken Miller, Business/Finance Manager, North County Charter School, Inc., 6640 Old Dixie Highway, Vero Beach, Florida 32967.

North County Charter School, Inc.
A Charter School and Component Unit of the
Indian River County District School Board
Statement of Net Position

June 30, 2016

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 1,348,571	\$ -	\$ 1,348,571
Due from local sources	1,155	-	1,155
Capital assets, net	5,009,221	-	5,009,221
Total Assets	6,358,947	-	6,358,947
Liabilities			
Long-term liabilities:			
Due within one year	204,438	-	204,438
Due in more than one year	2,862,470	-	2,862,470
Total Liabilities	3,066,908	-	3,066,908
Net Position			
Net investment in capital assets	1,942,313	-	1,942,313
Restricted for:			
Capital projects	43,906	-	43,906
Unrestricted	1,305,820	-	1,305,820
Total Net Position	\$ 3,292,039	\$ -	\$ 3,292,039

See accompanying notes to the basic financial statements.

North County Charter School, Inc.
A Charter School and Component Unit of the
Indian River County District School Board
Statement of Activities

Year ended June 30, 2016

	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Governmental activities:							
Instruction	\$ 1,197,400	\$ 93,679	\$ 79,091	\$ -	\$ (1,024,630)	\$ -	\$ (1,024,630)
Parental involvement	239	-	-	-	(239)	-	(239)
Instructional staff training	138	-	-	-	(138)	-	(138)
Board	17,378	-	-	-	(17,378)	-	(17,378)
School administration	304,804	-	-	-	(304,804)	-	(304,804)
Facilities acquisition and construction	400	-	-	67,247	66,847	-	66,847
Fiscal services	12,720	-	-	-	(12,720)	-	(12,720)
Food services	160,201	4,640	114,457	-	(41,104)	-	(41,104)
Transportation	24,856	-	-	-	(24,856)	-	(24,856)
Operation of plant	166,329	-	-	-	(166,329)	-	(166,329)
Maintenance of plant	9,167	-	-	-	(9,167)	-	(9,167)
Interest on long-term debt	120,917	-	-	-	(120,917)	-	(120,917)
Depreciation - unallocated *	106,984	-	-	-	(106,984)	-	(106,984)
Total Governmental Activities	\$ 2,121,533	\$ 98,319	\$ 193,548	\$ 67,247	(1,762,419)	-	(1,762,419)
General Revenues:							
Local revenue:							
Florida Education Finance Program					1,801,432	-	1,801,432
Class size funds					417,580	-	417,580
Instructional materials					23,415	-	23,415
Teachers lead program					4,675	-	4,675
Idea funds					22,402	-	22,402
School recognition funds					26,357	-	26,357
Loss on sale of asset					(539)	-	(539)
Gifts, grants and bequests					42,420	-	42,420
Interest earned					3,132	-	3,132
Total General Revenues					2,340,874	-	2,340,874
Change in Net Position					578,455	-	578,455
Net Position, beginning					2,713,584	-	2,713,584
Net Position, ending					\$ 3,292,039	\$ -	\$ 3,292,039

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See accompanying notes to the basic financial statements.

North County Charter School, Inc.
A Charter School and Component Unit of the
Indian River County District School Board
Balance Sheet - Governmental Funds

June 30, 2016

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 1,348,571	\$ -	\$ -	\$ 1,348,571
Due from local sources	1,155	-	-	1,155
Due from general fund	-	43,906	-	43,906
Total Assets	\$ 1,349,726	\$ 43,906	\$ -	\$ 1,393,632
Liabilities and Fund Balances				
Liabilities	\$ -	\$ -	\$ -	\$ -
Due to capital fund	43,906	-	-	43,906
Total Liabilities	43,906	-	-	43,906
Fund balances:				
Restricted	-	43,906	-	43,906
Unassigned	1,305,820	-	-	1,305,820
Total Liabilities and Fund Balances	\$ 1,349,726	\$ 43,906	\$ -	\$ 1,393,632
Total fund balances				\$ 1,349,726
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.				5,009,221
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.				(3,066,908)
Net position of governmental activities				<u>\$ 3,292,039</u>

See accompanying notes to the basic financial statements.

North County Charter School, Inc.
A Charter School and Component Unit of the
Indian River County District School Board
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds

Year ended June 30, 2016

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental:				
State through local	\$ -	\$ 67,247	\$ -	\$ 67,247
Interest	3,132	-	-	3,132
Local	2,511,051	-	119,097	2,630,148
Total Revenues	2,514,183	67,247	119,097	2,700,527
Expenditures				
Current - Education:				
Instruction	1,162,027	-	-	1,162,027
Parental involvement	239	-	-	239
Instructional staff training	138	-	-	138
Board	17,378	-	-	17,378
School administration	304,547	-	-	304,547
Facilities acquisition and construction	400	-	-	400
Fiscal services	12,720	-	-	12,720
Food services	-	-	153,125	153,125
Transportation	24,856	-	-	24,856
Operation of plant	166,329	-	-	166,329
Maintenance of plant	9,167	-	-	9,167
Debt service	316,932	-	-	316,932
Fixed Capital Outlay:				
Facilities acquisition and construction	-	81,497	-	81,497
Total Expenditures	2,014,733	81,497	153,125	2,249,355
Excess (Deficiency) of Revenues over Expenditures	499,450	(14,250)	(34,028)	451,172
Other Financing Sources (Uses)				
Operating transfers in (out)	(34,028)	-	34,028	-
Proceeds from sale of assets	-	900	-	900
Total Other Financing Sources (Uses)	(34,028)	900	34,028	900
Net Change in Fund Balances	465,422	(13,350)	-	452,072
Fund Balance, beginning of year	840,398	57,256	-	897,654
Fund Balance, end of year	\$ 1,305,820	\$ 43,906	\$ -	\$ 1,349,726

See accompanying notes to the basic financial statements.

North County Charter School, Inc.

A Charter School and Component Unit of the
Indian River County District School Board

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

Year ended June 30, 2016

Net change in fund balances - governmental funds	\$ 452,072
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 depreciation expense (\$149,690) exceeds capital outlays (\$81,497) in the period.	(68,193)
Repayment of the mortgage payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	196,015
The statement of activities reflects only the gain/loss on the sale of assets, whereas the governmental funds include all proceeds from these sales. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold.	(1,439)
Change in net position of governmental activities	\$ 578,455

See accompanying notes to the basic financial statements.

North County Charter School, Inc.
A Charter School and Component Unit of the
Indian River County District School Board
Budgetary Comparison Schedule - General Fund

Year ended June 30, 2016

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local	\$ 2,353,300	\$ 2,632,914	\$ 2,511,051	\$ (121,863)
Interest income	-	-	3,132	3,132
Total Revenues	2,353,300	2,632,914	2,514,183	(118,731)
Expenditures				
Current - Education:				
Instruction	1,148,945	1,103,445	1,162,027	(58,582)
Parental involvement	500	500	239	261
Instructional staff training	815	815	138	677
Board	4,550	23,050	17,378	5,672
School administration	262,700	260,200	304,547	(44,347)
Facilities acquisition and construction	2,200	2,200	400	1,800
Fiscal services	15,000	15,000	12,720	2,280
Transportation	28,000	28,000	24,856	3,144
Operation of plant	172,261	167,979	166,329	1,650
Maintenance of plant	7,000	7,000	9,167	(2,167)
Debt service	316,800	316,500	316,932	(432)
Total Expenditures	1,958,771	1,924,689	2,014,733	(90,044)
Excess (Deficit) of Revenues over Expenditures	394,529	708,225	499,450	(208,775)
Other Financing Sources (Uses)				
Operating transfers in (out)	-	-	(34,028)	(34,028)
Excess (Deficit) of Revenues and Other Sources over Expenditures and Other Uses	\$ 394,529	\$ 708,225	465,422	\$ (242,803)
Fund Balance, beginning of year			840,398	
Fund Balance, end of year			\$ 1,305,820	

See accompanying notes to the basic financial statements.

North County Charter School, Inc.

A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The North County Charter School, Inc., is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The governing body of the School is the Board of Directors which is composed of not less than five members. The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the School has been determined not to be a private foundation within the meaning of Section 509(a) of the Code.

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 Indian River County District School Board. The current charter is effective until June 30, 2028. At the end of the term of the charter, the District may choose not to renew the charter 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. During the term of the charter, the District may also terminate the charter if good cause is shown. The North County Charter School, Inc. is considered a component unit of the Indian River County District School Board.

Criteria for determining if other entities are potential component units of the School which should be reported with the School's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provide for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

Basis of Presentation

The School's financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

The basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the School's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The School has no business-type activities. Governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Reconciling items arise from differences in the measurement focuses and bases of accounting between the statements, and certain required eliminations.

North County Charter School, Inc.

A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

Basic Financial Statements - Government-wide Statements

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The School's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The School first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the School's functions and business-type activities. The functions are also supported by general revenues (funding received from the Indian River County School District, etc.). 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 (administration, food services, facilities acquisition and construction, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue. The School does not allocate indirect costs. 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.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The School's major governmental funds are as follows:

General Fund - Used to account for all financial resources not required to be accounted for in another fund.

Capital Projects Fund - Used to account for the financial resources to be used in the acquisition, construction, or improvement of capital facilities.

Basis of Accounting

Basis of accounting refers to when revenues and 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.

Both governmental and business-type 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.

North County Charter School, Inc.
 A Charter School and Component Unit of the
 Indian River County District School Board
 Notes to Basic Financial Statements (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

The governmental funds financial statements are prepared using the modified accrual basis of accounting. Under the modified accrual basis, revenues, except for certain grant revenues, are recognized when they become measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within sixty days of the current fiscal period. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except unmatured interest on long-term debt, which should be recognized when due. The principal exception to this general rule is that prepaid items are generally not accrued.

Budgetary Basis 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, purchased services and capital outlay). The budget is adopted and approved by the Board of Directors. The budget amounts presented in the accompanying financial statements are as amended by the Schools’ Board of Directors and adopted on a basis consistent with generally accepted accounting principles.

Cash

The School's cash consists of demand deposits with financial institutions, which are insured by Federal depository insurance.

Capital Assets and Depreciation

Expenditures for capital assets acquired for general school purposes are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated assets are recorded at fair market value at the date of donation. The School maintains a capitalization threshold of \$750. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

Buildings and fixed equipment	50 years
Improvements other than buildings	10-15 years
Furniture, fixtures and equipment	5-10 years
Loan costs	5-16 years

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. Payments made within sixty days after year end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

North County Charter School, Inc.

A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue Sources

Revenues for current operations are received primarily from the Indian River County District School Board pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33(17), 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.

The School received Federal awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements awarded before the eligibility requirements are met are recorded as deferred revenue.

Compensated Absences

Sick and personal leave expenditures are recognized when payments are made to the employees. Sick and personal leave do not accumulate from year-to-year, thus no liability is recorded.

Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation and amortization, are not recognized in governmental funds.

Fund Balance Disclosure

The School implemented the provisions of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions (GASB No. 54)", in 2011, as required. The purpose of GASB 54 is to improve the consistency and usefulness of the fund balances information to the financial user. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

North County Charter School, Inc.
A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balance Disclosure (continued)

Governmental Fund Financial Statements. In accordance with GASBS No. 54, the School classifies fund balances in the governmental funds as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The School did not have any nonspendable resources as of June 30, 2016.

Spendable Fund Balance includes Restricted, Committed, Assigned, and Unassigned designations:

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has \$43,906 of restricted resources as of June 30, 2016.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2016.

Assigned – This classification includes amounts that are constrained by the School’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School or by an official or body to which the School delegates the authority. The School did not have any assigned resources as of June 30, 2016.

Unassigned – This classification includes the residual fund balance for the General Fund.

The School would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Beginning with fiscal year end June 30, 2012, the School implemented the provisions of GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (GASB No. 63)”, in 2012, as required. The purpose of GASB 63 is to establish guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position.

North County Charter School, Inc.
A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements (continued)

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balance Disclosure (continued)

Governmental-wide Financial Statements. In accordance with GASB No. 63, the School classifies net position in the government-wide financial statements as follows:

Net Investment in Capital Assets – This classification includes the School’s capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – This classification includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The School typically uses restricted assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use until a future project. The School has \$43,906 in restricted net position as of June 30, 2016.

Unrestricted Net Position – This classification typically includes unrestricted liquid assets. The School has the authority to revisit or alter this designation.

Interfund Activity

Loans between governmental funds are reported as interfund receivables or payables as appropriate and are subject to elimination upon consolidation. Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. During the year ended June 30, 2016, the School made an interfund transfer of \$34,028 from the general fund to the special revenue fund to subsidize the School’s food program.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year ended June 30, 2016.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Related Parties

The Principal and the Business/Finance Manager of the School are daughter and father-in-law, respectively. The organizational chart of the School reflects that each report independently and directly to the Board of Directors and neither have any authority over one another.

Subsequent Events

Management has evaluated subsequent events through August 22, 2016, the date the financial statements were available to be issued.

North County Charter School, Inc.
A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements (continued)

Note 2 – Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 599,238	\$ -	\$ -	\$ 599,238
Total capital assets not being depreciated	599,238	-	-	599,238
Other capital assets:				
Buildings and fixed equipment	4,750,528	4,725	-	4,755,253
Improvements other than buildings	84,697	15,745	-	100,442
Furniture, fixtures and equipment	230,300	37,391	(1,804)	265,887
Computer software	800	1,350	-	2,150
Loan costs	63,109	-	-	63,109
Construction in progress	-	22,286	-	22,286
Total other capital assets at historical cost	5,129,434	81,497	(1,804)	5,209,127
Less accumulated depreciation for:				
Buildings and fixed equipment	(458,139)	(95,097)	-	(553,236)
Improvements other than buildings	(36,742)	(9,483)	-	(46,225)
Furniture, fixtures and equipment	(132,709)	(36,017)	365	(168,361)
Computer software	(224)	(205)	-	(429)
Loan costs	(22,005)	(8,888)	-	(30,893)
Total accumulated depreciation	(649,819)	(149,690) *	365	(799,144)
Other capital assets, net	4,479,615	(68,193)	(1,439)	4,409,983
Governmental activities capital assets, net	\$ 5,078,853	\$ (68,193)	\$ (1,439)	\$ 5,009,221

*** Depreciation expense was charged to governmental functions as follows:**

Instruction	\$ 35,373
School administration	257
Food services	7,076
Unallocated	106,984
	\$ 149,690

North County Charter School, Inc.

A Charter School and Component Unit of the
 Indian River County District School Board
 Notes to Basic Financial Statements (continued)

Note 3 – Long-Term Liabilities

The changes in the School’s long-term obligations for governmental activities during the year consist of the following:

	Principal Outstanding June 30, 2015	Additions	Reductions	Principal Outstanding June 30, 2016	Amount Due in One Year
Mortgages payable	\$ 3,262,923	\$ -	\$ 196,015	\$ 3,066,908	\$204,438

On February 22, 2011, the School re-negotiated their loan with RBC Bank (subsequently acquired by PNC Bank) for \$2,350,000 to purchase new facilities and finance additional facilities. On November 1, 2012, the School refinanced the loan with Seacoast National Bank. Beginning December 1, 2012, the agreement requires monthly principal, plus interest payments of \$17,818 until the maturity date of November 1, 2017, at which time all unpaid principal and interest shall become immediately due and payable. The loan carries a fixed interest rate of 3.75%, based on a five year adjusted rate through November 1, 2017.

On September 20, 2013, the School obtained a second loan with Seacoast National Bank. During the construction period (the first twelve months), accrued and unpaid interest shall be due and payable commencing on November 1, 2013. Beginning November 1, 2014, the agreement requires monthly principal, plus interest payments of \$8,593 until the maturity date of November 1, 2029, at which time all unpaid principal and interest shall become immediately due and payable. The loan carries a five year adjustable interest rate of 3.75% for the first five years. Beginning on October 1, 2018, the interest rate will be adjusted to 3.75% over the 5-year Treasury Constant Maturity, with a floor rate of 3.75%. The adjustment will occur every 5 years until paid in full.

Currently, payments on the mortgage payable are made by the General Fund.

Amounts needed for the planned extended repayment of the mortgage at June 30, 2016, are as follows:

Fiscal year ending June 30	Principal	Interest	Total
2017	\$ 204,438	\$ 112,493	\$ 316,931
2018	1,912,891	65,973	1,978,864
2019	68,715	34,397	103,112
2020	71,336	31,776	103,112
2021	74,058	29,054	103,112
2022 and thereafter	735,470	121,343	856,813
	\$ 3,066,908	\$ 395,036	\$ 3,461,944

Note 4 – Governmental Fund Balance

GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions,” redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Spendable:

Restricted – Amounts that can be spent only for specific purposes because of the School Charter, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors.

Assigned – Amounts that are designated by the Principal for a specific purpose.

Unassigned – All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 11). As discussed in Note 1, restricted funds are used first as appropriate. Decreases to fund balance first reduce Unassigned Fund Balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

General Fund

The General Fund has an Unassigned Fund Balance of \$1,305,820 at June 30, 2016.

Note 5 – Net Position

At June 30, 2016, the net position of the School consisted of the following:

	Governmental Activities	Business-type Activities
Net investment in capital assets:		
Net property, plant and equipment	\$ 5,009,221	\$ -
Less:		
Mortgage payable	(3,066,908)	-
Total net investment in capital assets	1,942,313	-
Restricted for capital projects	43,906	
Unrestricted	1,305,820	-
Total net position	\$ 3,292,039	\$ -

North County Charter School, Inc.

A Charter School and Component Unit of the
Indian River County District School Board
Notes to Basic Financial Statements (continued)

Note 6 – 401(k) Plan

The School initiated a 401(k) plan on September 1, 2002 (restated January 1, 2015 and subsequently amended on May 4, 2016), that covers all employees who have attained twenty-one years of age and satisfied a one-year service requirement. Employees may make elective contributions up to the limit established by federal law. The School may make elective contributions equal to the employee's contribution up to a limit of 3% of the employee's compensation (excluding bonuses) for the fiscal year. For the year ended June 30, 2016, the School contributed \$19,669 to the plan.

Note 7 – Risk Management Programs

Personnel of the School are provided through a leasing arrangement with a licensed employee leasing company. Workers' compensation coverage is provided by the employee leasing company. Employees of the School are covered by purchased health insurance. The School contributes monthly for each employee to the plan and employees, at their option, authorize payroll withholdings to pay for dependents. Employees may also voluntarily enroll in other various insurance plans through a pre-tax program. Employees authorize payroll withholdings and are responsible for all premiums.

General liability, professional liability, and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Commercial coverage has not been exceeded.

Note 8 – Pending Litigation

The School, along with four other charter schools in Indian River County, are seeking tax revenues it believes that the Indian River County School District (District) illegally withheld from the charter schools each year beginning in the 2012-13 fiscal year. These monies were generated by a local discretionary tax levy. The charter schools believe that Florida law requires the District to share those monies pro rata. The District shared significantly less than a pro rata amount with the charter schools. To date a complaint has been filed by the charter schools seeking injunctive relief, declaratory judgment, and damages from breach of contracts with the charter schools. The District has engaged in motion practice, but the District has been ordered to answer the complaint by August 28, 2016.



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*

To the Board of Directors
 North County Charter School, Inc.
 Vero Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North County Charter School, Inc. (the School), a component unit of the Indian River County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 22, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

To the Board of Directors
North County Charter School, Inc.

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.

A handwritten signature in cursive script that reads "Kmetz, Nuttall, Elwell, Graham".

Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants

August 22, 2016

To the Board of Directors
North County Charter School, Inc.

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for North County Charter School, Inc. It is management's responsibility to monitor North County Charter School, Inc.'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 North County Charter School, Inc. maintains on its website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that North County Charter School, Inc. maintained on its website the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

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

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

Purpose of this Letter

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



Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants

August 22, 2016