

# Gateway Charter High School

A Department of Southwest Charter  
Foundation, Inc.

(A Component Unit of the School  
District of Lee County, Florida)

Basic Financial Statements  
For the Year Ended June 30, 2017

# Gateway Charter High School

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Gateway Charter High School  
A Department of Southwest Charter Foundation, Inc.  
Fort Myers, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gateway Charter High School (the "School"), a Department of Southwest Charter Foundation, Inc. and a component unit of the School District of Lee County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2017, and the respective changes in financial position, and budgetary comparison for the General Fund and Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1, the financial statements of the School are intended to present the financial position and change in financial position of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of Southwest Charter Foundation, Inc. that is attributable to the transactions of the School. They do not purport to, and do not, present fairly the financial position of Southwest Charter Foundation, Inc. as of June 30, 2017 and the changes in its financial position or budgetary comparisons, where applicable, for the year ended June 30, 2017 in conformity 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 3 through 6 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 7, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



KEEFE McCULLOUGH

Fort Lauderdale, Florida  
September 7, 2017

# MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Gateway Charter High School (the "School"), a Department of Southwest Charter Foundation, Inc. and a component unit of the School District of Lee County, Florida (the "School District",) we offer readers of the School's basic financial statements this narrative overview and analysis of the financial activities of the School for the years ended June 30, 2017 and 2016.

Management's discussion and analysis is included at the beginning of the School's basic financial statements to provide, in layman's terms, the past and current position of the School's financial condition. This summary should not be taken as a replacement for the audit which consists of the basic financial statements and other supplementary information.

### **Financial Highlights**

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

- As of June 30, 2017, the School's governmental fund balance was \$ 195,243 as compared to \$ 82,464 as of June 30, 2016.
- The net position (deficit) at June 30, 2017 was \$ (1,822,633), as compared to \$ (2,054,206) as of June 30, 2016.

### **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 are comprised of three components: 1) government-wide basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements.

**Government-Wide Basic Financial Statements:** The government-wide basic 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 (deficit) presents information on all of the School's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position (deficit). Over time, increases or 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 year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected revenues and services rendered, but unpaid).

The government-wide basic financial statements include all governmental activities that are principally supported by grants and entitlements from the state for full-time equivalent funding. The School does not have any business-type activities. The governmental activities of the School primarily include instruction and instructional support services.

The government-wide basic financial statements can be found on pages 7 and 8 of this report.

**Fund Basic Financial Statements:** A fund is a grouping of related accounts which is used to maintain control over resources which 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.

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

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

The School maintains several individual governmental funds. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances. The General Fund, Special Revenue Fund and Capital Project Fund are considered to be the School's major funds.

The School adopts an annual budget for its governmental funds. A budgetary comparison statement has been provided for the General Fund and Special Revenue Fund to demonstrate compliance with the budget.

The governmental fund basic financial statements can be found on pages 9 through 14 of this report.

**Agency Fund:** In addition, the School has one Agency Fund, which is a student activity fund. This fund is formed for educational and school purposes.

The basic Agency Fund financial statement can be found on page 15 of this report.

**Notes to Basic Financial Statements:** The notes provide additional information which is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 16 through 24 of this report.

## Government-Wide Financial Analysis

The School has been in operation for thirteen years; therefore, comparative government-wide data is presented. The School's net position (deficit) was \$ (1,822,633) at June 30, 2017, of which \$ (905,112) represents net investment in capital assets (deficit) and \$ (917,121) is unrestricted (deficit). The School's net position (deficit) was \$ (2,054,206) at June 30, 2016, which represented net investment in capital assets (deficit), of \$ (1,005,298) and \$ (1,048,908) of unrestricted (deficit).

**Gateway Charter High School  
Management's Discussion and Analysis  
June 30, 2017**

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Our analysis in the table below focuses on the net position (deficit) of the School's governmental activities:

Gateway Charter High School Net Position (Deficit)		
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Assets:</b>		
Current and other assets	\$ 1,104,934	\$ 1,417,394
Capital assets, net of depreciation	<u>10,632,894</u>	<u>10,928,882</u>
Total assets	<u>11,737,828</u>	<u>12,346,276</u>
<b>Liabilities:</b>		
Current liabilities	1,374,152	1,683,057
Noncurrent liabilities	<u>12,186,309</u>	<u>12,717,425</u>
Total liabilities	<u>13,560,461</u>	<u>14,400,482</u>
<b>Net Position (Deficit):</b>		
Net investment in capital assets (deficit)	(905,512)	(1,005,298)
Unrestricted (deficit)	<u>(917,121)</u>	<u>(1,048,908)</u>
Total net position (deficit)	<u>\$ (1,822,633)</u>	<u>\$ (2,054,206)</u>

Current and other assets decreased from the prior year as a result of a decrease in the amount due from the management company offset by an increase in cash. The decrease in capital assets, net of depreciation is a result of depreciation expense of \$ 487,032. The decrease in current liabilities is a result of a decrease in accounts payable. Noncurrent liabilities decreased as a result of principal payments on their capital lease.

**Governmental Activities:** The results of this year's operations for the School, as a whole, are reported in the statement of activities on page 8. The following table provides a condensed presentation of the School's revenues and expenses for the years ended June 30, 2017 and 2016:

Gateway Charter High School Change in Net Position (Deficit)		
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Revenues:</b>		
General revenues	\$ 4,890,896	\$ 4,767,957
Program revenues	742,635	768,684
Transfer in	<u>188,911</u>	<u>188,896</u>
Total revenues	<u>5,822,442</u>	<u>5,725,537</u>
<b>Functions/Program Expenses:</b>		
Instruction	2,390,973	2,335,536
Instructional support services	2,013,146	2,071,644
Non-instructional services	<u>1,186,750</u>	<u>1,142,028</u>
Total governmental activities	<u>5,590,869</u>	<u>5,549,208</u>
Change in net position	<u>\$ 231,573</u>	<u>\$ 176,329</u>

Total revenues increased as a result of an increase in contributions made by the management company. Total expenses remained consistent with the prior year.



**Governmental Fund Expenditures**

In the table below, we have presented the cost of the largest functions/programs as a percentage of total governmental expenditures:

<u>Functions/Programs</u>	<u>2017</u>		<u>2016</u>	
	<u>Expenditures</u>	<u>Percent</u>	<u>Expenditures</u>	<u>Percent</u>
Governmental expenditures:				
Instructional expenditures	\$ 2,290,773	40%	\$ 2,260,184	37%
Debt service	1,170,252	20%	1,160,933	19%
Plant operations and maintenance	665,808	12%	690,140	11%
Transportation	501,422	9%	502,073	8%
Food services	307,481	5%	337,261	5%
All other functions/programs	<u>773,927</u>	<u>14%</u>	<u>1,192,543</u>	<u>20%</u>
Total governmental expenditures	\$ <u>5,709,663</u>	<u>100%</u>	\$ <u>6,143,134</u>	<u>100%</u>

**Capital Assets and Debt Administration**

**Capital assets:** At June 30, 2017, the School had capital assets of \$ 10,632,894 net of accumulated depreciation, invested in a building, furniture and equipment, computers and improvements other than building, as compared to \$ 10,928,882 at June 30, 2016.

**Debt:** At June 30, 2017, the School had outstanding debt of \$ 11,538,406 as compared to \$ 11,934,180 at June 30, 2016. Additional information on the School's debt can be found in Notes 7 and 8 on pages 22 and 23.

**General Fund Budgetary Highlights**

State source revenues were unfavorable to the budget for the year ended June 30, 2017 primarily due to a shortfall in enrollment of approximately 130 students. Local source revenues were favorable due to a contribution by the management company of approximately \$ 795,000.

Expenditures were favorable to the budget as a result of savings in administrative salaries and benefits. The School ended the year with a change in fund balance which was favorable to budget by approximately \$ 112,800.

**Economic Factors and Next Year's Budget**

In fiscal year 2017, the State of Florida increased its Florida Education Finance Program funding by approximately 1%. The capital outlay funding pool also increased to \$ 75 million. A 2% merit increase was paid out to eligible staff. For fiscal year 2018, the School budgets were finalized ahead of the passing of House Bill 7069 and the final capital outlay reduction to \$ 50 million. The budgets reflect a Florida Education Finance Program funding increase of approximately .34% and flat capital outlay. A 2% merit increase for all staff is included as well as additional teacher pay increases in certain districts. All other expenditures are budgeted in alignment with enrollment changes and the School's strategic objectives.

**Requests for Information**

If you have any questions about this report or need additional information, please write Hillary Daigle, Vice President of Finance; Charter Schools USA; 800 Corporate Drive, Suite 700; Fort Lauderdale, Florida 33334.

# BASIC FINANCIAL STATEMENTS

**Gateway Charter High School**  
**Statement of Net Position (Deficit)**  
**June 30, 2017**

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	<b>Governmental Activities</b>
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 731,402
Due from Trustee	170,195
Due from other governments	37,546
Due from related parties	33,768
Other receivables	81,745
Prepaid items	17,968
Deposits	<u>32,310</u>
Total current assets	1,104,934
<b>Noncurrent Assets:</b>	
Capital assets (depreciable), net of accumulated depreciation	<u>10,632,894</u>
Total assets	<u>11,737,828</u>
<b>Current Liabilities:</b>	
Accounts payable	103,326
Salaries and wages payable	166,544
Due to management company	550,130
Due to related party	89,691
Accrued interest payable	31,395
Compensated absences	13,822
Capital leases	<u>419,244</u>
Total current liabilities	<u>1,374,152</u>
<b>Noncurrent Liabilities:</b>	
Accrued interest payable	1,062,540
Compensated absences	4,607
Capital leases	<u>11,119,162</u>
Total noncurrent liabilities	<u>12,186,309</u>
Total liabilities	<u>13,560,461</u>
<b>Commitments (Note 10)</b>	-
<b>Net Position (Deficit):</b>	
Net investment in capital assets (deficit)	(905,512)
Unrestricted (deficit)	<u>(917,121)</u>
Total net position (deficit)	<u>\$ (1,822,633)</u>

The accompanying notes to basic financial statements are an integral part of these statements.

**Gateway Charter High School  
Statement of Activities  
For the Year Ended June 30, 2017**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Activities Net Revenue (Expense) and Change in Net Position (Deficit)</u>
<b>Functions/Programs:</b>					
Instruction	\$ 2,390,973	\$ -	\$ 8,243	\$ -	\$ (2,382,730)
Pupil personnel services	155,470	-	-	-	(155,470)
Instruction and curriculum development services	2,159	-	-	-	(2,159)
Instructional staff and training services	9,512	-	7,651	-	(1,861)
Instruction related technology	88,245	-	-	-	(88,245)
School Board	24,953	-	-	-	(24,953)
School administration	193,005	-	-	-	(193,005)
Fiscal services	8,599	-	-	-	(8,599)
Food services	307,481	59,743	307,481	-	59,743
Central services	95,467	-	-	-	(95,467)
Pupil transportation services	501,422	-	82,700	-	(418,722)
Operation of plant	920,644	-	96,405	-	(824,239)
Maintenance of plant	142,689	-	-	-	(142,689)
Community service	5,473	-	-	-	(5,473)
Interest on long-term debt	744,777	-	-	180,412	(564,365)
<b>Total governmental activities</b>	<b>\$ 5,590,869</b>	<b>\$ 59,743</b>	<b>\$ 502,480</b>	<b>\$ 180,412</b>	<b>(4,848,234)</b>
General revenues:					
Grants and entitlements					4,025,630
Contributions					795,365
Other income					69,901
Transfer in					188,911
<b>Total general revenues and transfer in</b>					<b>5,079,807</b>
<b>Change in net position (deficit)</b>					<b>231,573</b>
<b>Net position (deficit), July 1, 2016</b>					<b>(2,054,206)</b>
<b>Net position (deficit), June 30, 2017</b>					<b>\$ (1,822,633)</b>

The accompanying notes to basic financial statements are an integral part of these statements.

**Gateway Charter High School  
Balance Sheet - Governmental Funds  
June 30, 2017**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 731,402	\$ -	\$ -	\$ 731,402
Other receivables	81,745	-	-	81,745
Due from Trustee	170,195	-	-	170,195
Due from other governments	-	23,960	13,586	37,546
Due from related parties	2,693	31,075	-	33,768
Due from other funds	68,621	-	-	68,621
Prepaid items	17,968	-	-	17,968
Deposits	32,310	-	-	32,310
	<u>1,104,934</u>	<u>55,035</u>	<u>13,586</u>	<u>1,173,555</u>
Total assets	\$ <u>1,104,934</u>	\$ <u>55,035</u>	\$ <u>13,586</u>	\$ <u>1,173,555</u>
<b>Liabilities:</b>				
Accounts payable	\$ 103,326	\$ -	\$ -	\$ 103,326
Salaries and wages payable	166,544	-	-	166,544
Due to management company	550,130	-	-	550,130
Due to related party	89,691	-	-	89,691
Due to other funds	-	55,035	13,586	68,621
	<u>909,691</u>	<u>55,035</u>	<u>13,586</u>	<u>978,312</u>
Total liabilities	<u>909,691</u>	<u>55,035</u>	<u>13,586</u>	<u>978,312</u>
<b>Commitments (Note 10)</b>	-	-	-	-
<b>Fund Balances:</b>				
Nonspendable:				
Prepaid Items	17,968	-	-	17,968
Deposits	32,310	-	-	32,310
Unassigned	144,965	-	-	144,965
	<u>195,243</u>	<u>-</u>	<u>-</u>	<u>195,243</u>
Total fund balances	<u>195,243</u>	<u>-</u>	<u>-</u>	<u>195,243</u>
Total liabilities and fund balances	\$ <u>1,104,934</u>	\$ <u>55,035</u>	\$ <u>13,586</u>	\$ <u>1,173,555</u>

The accompanying notes to basic financial statements are an integral part of these statements.

**Gateway Charter High School  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Position (Deficit)  
 June 30, 2017**

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**Total Fund Balances - Governmental Funds** \$ 195,243

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

The cost of capital assets acquired is reported as an expenditure in the governmental funds. The statement of net position (deficit) includes those capital assets, net of accumulated depreciation, among the assets of the School as a whole.

Cost of capital assets	\$	15,797,559	
Less accumulated depreciation		<u>(5,164,665)</u>	10,632,894

Liabilities not payable with current available resources are not reported as fund liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements.

Compensated absences		(18,429)	
Accrued interest payable		(1,093,935)	
Capital leases payable		<u>(11,538,406)</u>	<u>(12,650,770)</u>

**Net Position (Deficit) of Governmental Activities** \$ (1,822,633)

The accompanying notes to basic financial statements are an integral part of these statements.

**Gateway Charter High School  
Statement of Revenues, Expenditures and  
Change in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2017**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
<b>Revenues:</b>				
Federal through state	\$ -	\$ 371,905	\$ -	\$ 371,905
State sources	4,116,573	8,536	180,412	4,305,521
Local sources	956,105	-	-	956,105
	<u>5,072,678</u>	<u>380,441</u>	<u>180,412</u>	<u>5,633,531</u>
<b>Total revenues</b>				
<b>Expenditures:</b>				
Instruction	2,290,773	-	-	2,290,773
Pupil personnel services	155,470	-	-	155,470
Instruction and curriculum development services	2,159	-	-	2,159
Instructional staff and training services	1,861	7,651	-	9,512
Instruction related technology	88,245	-	-	88,245
School Board	24,953	-	-	24,953
School administration	193,005	-	-	193,005
Fiscal services	8,599	-	-	8,599
Food services	-	307,481	-	307,481
Central services	95,467	-	-	95,467
Pupil transportation services	501,422	-	-	501,422
Operation of plant	457,810	65,309	-	523,119
Maintenance of plant	142,689	-	-	142,689
Community services	5,473	-	-	5,473
Facilities acquisition and construction	191,044	-	-	191,044
Debt service:				
Principal	395,774	-	-	395,774
Interest	594,066	-	180,412	774,478
	<u>5,148,810</u>	<u>380,441</u>	<u>180,412</u>	<u>5,709,663</u>
<b>Total expenditures</b>				
Excess (deficiency) of revenues over expenditures	(76,132)	-	-	(76,132)
<b>Other Financing Sources:</b>				
Transfer in	188,911	-	-	188,911
	<u>188,911</u>	<u>-</u>	<u>-</u>	<u>188,911</u>
<b>Total other financing sources</b>				
Net change in fund balances	112,779	-	-	112,779
<b>Fund Balances, July 1, 2016</b>	<u>82,464</u>	<u>-</u>	<u>-</u>	<u>82,464</u>
<b>Fund Balances, June 30, 2017</b>	<u>\$ 195,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 195,243</u>

The accompanying notes to basic financial statements are an integral part of these statements.

**Gateway Charter High School  
Reconciliation of the Statement of Revenues,  
Expenditures and Change in Fund Balances  
of the Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2017**

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**Change in Fund Balances - Governmental Funds** \$ 112,779

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the costs of those assets are depreciated over their estimated useful lives as provision for depreciation.

Cost of capital assets	\$ 191,044	
Less provision for depreciation	<u>(487,032)</u>	(295,988)

Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Retirements of capital lease obligations		395,774
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Change in compensated absences	(10,693)	
Change in accrued interest payable	<u>29,701</u>	<u>19,008</u>

**Change in Net Position of Governmental Activities** \$ 231,573

The accompanying notes to basic financial statements are an integral part of these statements.



**Gateway Charter High School  
Statement of Revenues and Expenditures -  
Budget and Actual - General Fund  
For the Year Ended June 30, 2017**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
State sources	\$ 4,896,276	\$ 4,116,573	\$ (779,703)
Local sources	279,157	956,105	676,948
Aftercare	866	-	(866)
	<u>5,176,299</u>	<u>5,072,678</u>	<u>(103,621)</u>
<b>Total revenues</b>			
<b>Expenditures:</b>			
Instruction	2,248,918	2,290,773	(41,855)
Pupil personnel services	114,690	155,470	(40,780)
Instruction and curriculum development services	-	2,159	(2,159)
Instructional staff and training services	8,160	1,861	6,299
Instruction related technology	88,100	88,245	(145)
School Board	21,413	24,953	(3,540)
School administration	348,679	193,005	155,674
Fiscal services	11,291	8,599	2,692
Food services	30,976	-	30,976
Central services	93,494	95,467	(1,973)
Pupil transportation services	528,384	501,422	26,962
Operation of plant	572,742	457,810	114,932
Maintenance of plant	123,251	142,689	(19,438)
Community services	54	5,473	(5,419)
Facilities and acquisition construction	170,615	191,044	(20,429)
Debt service:			
Principal	395,774	395,774	-
Interest	608,669	594,066	14,603
	<u>5,365,210</u>	<u>5,148,810</u>	<u>216,400</u>
<b>Total expenditures</b>			
Excess (deficiency) of revenues over expenditures	(188,911)	(76,132)	112,779
<b>Other Financing Sources:</b>			
Transfer in	<u>188,911</u>	<u>188,911</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 112,779</u>	<u>\$ 112,779</u>

The accompanying notes to basic financial statements are an integral part of these statements.

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

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	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
Federal sources:			
National School Lunch Program	\$ 361,101	\$ 364,254	\$ 3,153
Title II	8,060	7,651	(409)
State sources:			
National School Lunch Program	<u>4,597</u>	<u>8,536</u>	<u>3,939</u>
Total revenues	<u>373,758</u>	<u>380,441</u>	<u>6,683</u>
<b>Expenditures:</b>			
Instructional staff and training services	8,060	7,651	409
Food services	365,698	307,481	58,217
Operation of plant	<u>-</u>	<u>65,309</u>	<u>(65,309)</u>
Total expenditures	<u>373,758</u>	<u>380,441</u>	<u>(6,683)</u>
Net change in fund balance	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

The accompanying notes to basic financial statements are an integral part of these statements.

Gateway Charter High School  
Statement of Assets and Liabilities - Agency Fund  
June 30, 2017

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	<u>Student Activity</u>
<b>Assets:</b>	
Cash	\$ <u>41,985</u>
Total assets	\$ <u><u>41,985</u></u>
<b>Liabilities:</b>	
Due to students	\$ <u>41,985</u>
Total liabilities	\$ <u><u>41,985</u></u>

The accompanying notes to basic financial statements are an integral part of these statements.

#### Note 1 - Organization and Operations

The Southwest Charter Foundation, Inc. (the "Foundation"), formally known as The Lee Charter Foundation, Inc., was organized in September 2001 as a Florida nonprofit corporation. Gateway Charter High School (the "School") is a Department of the Foundation and is established as a charter school for students from ninth through twelfth grade in Lee County. There were 640 students enrolled for the 2016/2017 school year.

The basic financial statements of Gateway Charter High School, a Department of Southwest Charter Foundation, Inc. and component unit of the School District of Lee County, Florida (the "School District"), present only the balances, activity, and disclosures related to the School. They do not purport to, and do not, present fairly the financial position of Southwest Charter Foundation, Inc. as of June 30, 2017, and its changes in financial position or budgetary comparisons, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The School's basic financial statements do not include the activity or accounts of Lee County Community Charter Schools, LLC (the "LLC") (Note 10), an entity created to fund the purchase of the facility housing the School's operations. Accordingly, these basic financial statements only include balances, activity and disclosures related to the School.

#### Note 2 - Summary of Significant Accounting Policies

**Reporting entity:** The School operates under a charter granted by the sponsoring School District, the Lee County School District. The current charter is effective until June 2023, and may be renewed in increments of five years by mutual written agreement between the School and the School District. At the end of the term of the charter, the School District may choose not to renew the charter under grounds specified in the charter in which case the School District is required to notify the School in writing at least ninety days prior to the charter's expiration. During the term of the charter, the School District may also terminate the charter if good cause is shown as defined by the agreement. Gateway Charter High School is considered a component unit of the School District.

The School may also be financially accountable if an organization is fiscally dependent on the School regardless of whether the organization has a separately elected governing board, a governing board appointed by another government, or a jointly approved board. In addition, component units can be other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the basic financial statements to be misleading or incomplete.

As a result of evaluating the above criteria, management has determined that no component units exist for which the School is financially accountable which would require inclusion in the School's basic financial statements.

**Basis of presentation:** Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide - Not-for-Profit Organizations and provisions of Section 228.056 Florida Statutes, the School is presented as a governmental organization for financial statement reporting purposes.

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Government-wide basic financial statements:** The School's basic financial statements include both government-wide (reporting the School as a whole) and fund basic financial statements (reporting the School's major funds). Both the government-wide and fund basic financial statements categorize primary activities as either governmental or business-type. All of the School's activities are classified as governmental activities.

In the government-wide statement of net position (deficit), the governmental activities column is presented on a consolidated basis, if applicable, and is reported on a full-accrual, economic resource basis, which recognizes all noncurrent assets and receivables as well as all noncurrent debt and obligations.

The government-wide statement of activities reports both the gross and net cost of each of the School's functions. The net costs, by function, are also supported by general revenues (unrestricted contributions, investment earnings, miscellaneous revenue, etc.). The statement of activities reduces gross expenses (including provision for depreciation) by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants. For the year ended June 30, 2017, the School had program revenues of \$ 742,635.

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

**Fund financial statements:** The accounts of the School are organized on the basis of funds. The operations of the funds are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

The Schools reports the following major governmental funds:

**General Fund** - This fund is used to account for all operating activities of the School except for those required to be accounted for in another fund.

**Special Revenue Fund** - This fund is used to account for federal grants and certain state grants that are legally restricted to expenditures for particular purposes.

**Capital Project Fund** - This fund is used to account for state capital outlay funding that is legally restricted to expenditures for particular purposes.

**Measurement focus and basis of accounting:** Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the basic financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. Governmental funds use the current financial resources measurement focus and the governmental-wide statement uses the economic resources measurement focus.

Governmental activity in the government-wide basic financial statements is presented on the full-accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Note 2 - Summary of Significant Accounting Policies (continued)**

The governmental fund basic financial statements are presented on the modified-accrual basis of accounting under which revenue is recognized in the accounting period in which it becomes susceptible to accrual (i.e., when it becomes both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within sixty days after year-end or soon enough thereafter to be used to pay liabilities of the current period.

**Cash and cash equivalents:** The School maintains its cash accounts with one financial institution. The School's accounts at this institution, at times, may exceed the federally insured limit. The School has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk (Note 3).

**Prepaid items:** Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Due to and due from other funds:** Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. The balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

**Revenue recognition:** Student funding is provided by the State of Florida through the School District. Such funding is recorded as entitlement revenue in the government-wide financial statements and state source revenue in the fund basic financial statements. This funding is received on a prorata basis over the twelve-month period the School is in session and is adjusted for changes in full-time equivalent (FTE) student population.

**Income taxes:** The School is a department of a nonprofit corporation. Revenue of the School is derived primarily from other governmental entities. The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in these basic financial statements.

**Capital assets:** Property and equipment purchased or acquired are capitalized at historical cost or estimated historical cost. Capital assets are defined by the School as assets with an initial cost of \$ 750 and useful life of over one year. Donated property and equipment are reported at acquisition value as of the date received. Additions, improvements, and other capital outlays which significantly extend the useful life of an asset are capitalized and depreciated over the remaining useful lives of the related capital assets. Other costs incurred for repairs and maintenance are expensed as incurred.

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

Buildings	40 years
Computers	3 years
Furniture and equipment	5-10 years
Improvements other than buildings	10 years

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Deferred outflows/inflows of resources:** In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of 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(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The School does not have any items that qualify for reporting in this category.

**Unearned revenue:** Unearned revenue arises when the School receives resources before it has a legal claim to them.

**Compensated absences:** The School's policy permits employees to accumulate earned but unused paid time off, which is eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Payments for compensated absences are generally paid out of the General Fund.

**Net position (deficit):** Net position is classified in three categories. The general meaning of each is as follows:

- Net investment in capital assets (deficit) - represents the difference between the cost of capital assets, less accumulated depreciation reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.
- Restricted - consists of net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- Unrestricted (deficit) - indicates that portion of net position that will need to be funded by future operations.

**Fund balance:** The governmental fund financial statements present fund balances based on the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance classifications and also sets a hierarchy which details how the School may spend funds based on certain constraints. The following are the fund balance classifications used in the governmental fund financial statements:

- Nonspendable - this classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The School classifies inventories, prepaid items, long-term notes receivable and deposits as nonspendable since they are not expected to be converted to cash or are not expected to be converted to cash within the next year.

**Note 2 - Summary of Significant Accounting Policies (continued)**

- Restricted - this classification includes amounts that are restricted for specific purposes by external parties such as grantors and creditors or are imposed by law through constitutional provisions or enabling legislation.
- Committed - this classification includes amounts that can be used for specific purposes voted on through formal action of the Board of Directors (the highest level of decision making authority). The committed amount cannot be used for any other purpose unless the Board of Directors removes or changes the commitment through formal action.
- Assigned - this classification includes amounts that the Board of Directors intends to use for a specific purpose but they are neither restricted nor committed. The School classifies existing fund balance to be used in the subsequent year's budget for elimination of a deficit as assigned.
- Unassigned - this classification includes amounts that have not been restricted, committed or assigned for a specific purpose within the General Fund.

The details of the fund balances are included in the Governmental Fund Balance Sheet on page 9.

When the School incurs expenditures for which restricted or unrestricted fund balance is available, the School would consider restricted funds to be spent first. When the School has expenditures for which committed, assigned or unassigned fund balance is available, the School would consider committed funds to be spent first, then assigned funds and lastly unassigned funds.

**Use of estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Budget:** An operating budget is adopted and maintained by the governing board for the School pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in the preparation of the basic financial statements.

**Date of Management's Review:** The School has evaluated subsequent events through September 7, 2017, which is the date that the financial statements were available to be issued.

**Note 3 - Cash and Cash Equivalents**

At June 30, 2017, the carrying amount of the deposits and cash on hand totaled \$ 773,387 with a bank balance of \$ 786,223.

State statutes require, and it is the School's policy, that all deposits be made into, and be held by, financial institutions designated by the Treasurer of the State of Florida as qualified public depositories as defined by Chapter 280 of the Florida Statutes. This statute requires that every qualified public depository institution maintain eligible collateral to secure the public entity's funds. The minimum collateral to be pledged by an institution, the collateral eligible for pledge, and reporting requirements of the qualified public depository to the treasurer is defined by the statute. Collateral is pooled in a multiple qualified public depository institution pool with the ability to assess members of the pool should the need arise. The School's deposits are held in a qualified public depository. They are covered by the collateral pool as the School has identified itself as a public entity at June 30, 2017.



**Gateway Charter High School**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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**Note 4 - Due From Trustee**

Due from trustee at June 30, 2017 consists of \$ 170,195 due to the School for revenues from Lee County School District (Note 10).

**Note 5 - Due From/To Related Parties**

The School is a Department of Southwest Charter Foundation, Inc. ("SCF"). As of June 30, 2017, SCF owes the School \$ 31,075 for the National School Lunch Program funding not yet distributed to the School.

The School, Gateway Charter School ("GCS") and Gateway Intermediate Charter School ("GICS") are affiliated, as they all share common board membership and are Departments of SCF. The Schools share teachers and administrative staff, as well as other operating expenses. As of June 30, 2017, the basic financial statements reflect a due from GICS of \$ 2,693 and a due to GCS of \$ 89,691.

**Note 6 - Capital Assets**

Capital asset balances and activity for the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Capital assets, depreciable:				
Buildings	\$ 13,338,119	\$ -	\$ -	\$ 13,338,119
Computers	909,424	-	-	909,424
Furniture and equipment	572,045	98,644	-	670,689
Improvements other than buildings	<u>786,927</u>	<u>92,400</u>	<u>-</u>	<u>879,327</u>
Total capital assets, depreciable	<u>15,606,515</u>	<u>191,044</u>	<u>-</u>	<u>15,797,559</u>
Accumulated depreciation:				
Building	3,084,440	333,453	-	3,417,893
Computers	817,163	51,087	-	868,250
Furniture and equipment	515,365	38,420	-	553,785
Improvements other than building	<u>260,665</u>	<u>64,072</u>	<u>-</u>	<u>324,737</u>
Total accumulated depreciation	<u>4,677,633</u>	<u>487,032</u>	<u>-</u>	<u>5,164,665</u>
Net capital assets	<u>\$ 10,928,882</u>	<u>\$ (295,988)</u>	<u>\$ -</u>	<u>\$ 10,632,894</u>

Provision for depreciation was charged to governmental activities as follows:

Instruction	\$ 89,507
Operation of plant	<u>397,525</u>
Total	<u>\$ 487,032</u>

**Gateway Charter High School**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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**Note 7 - Capital Leases**

The School previously entered into a capital lease arrangement for use of its facility. This lease arrangement was entered into as part of a bond issuance by the Lee County Industrial Development Authority (Note 10). This lease agreement was amended and restated upon the closing of a supplemental bond issuance. The lease is through 2057 and requires monthly principal and interest payments through June 2037. As of June 30, 2017, the net book value of the leased facility is approximately \$ 9,920,200. Amortization of the leased facility is included with depreciation expense.

Future capital lease payments in the aggregate are as follows:

Year Ending June 30,	Principal	Interest	Accrued Interest Payable	Total
2018	\$ 329,191	\$ 595,456	\$ 31,395	\$ 956,042
2019	346,636	578,010	36,834	961,480
2020	365,006	559,640	36,834	961,480
2021	384,350	540,296	36,834	961,480
2022	404,718	519,928	36,834	961,480
2023-2027	2,368,970	2,254,261	230,230	4,853,461
2028-2032	3,066,843	1,556,387	314,404	4,937,634
2033-2037	3,970,303	652,927	370,570	4,993,800
	<u>\$ 11,236,017</u>	<u>\$ 7,256,905</u>	<u>\$ 1,093,935</u>	<u>\$ 19,586,857</u>

In 2016, the School entered into a capital lease arrangement for the replacement of the HVAC system. The lease requires monthly payments of \$ 9,249 through July 2020. As of June 30, 2017, the net book value of the leased equipment is approximately \$ 460,900. Amortization of HVAC system is included with depreciation expense.

The following is a schedule of the future minimum payments as of June 30, 2017:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 90,053	\$ 20,937	\$ 110,990
2019	97,527	13,462	110,989
2020	105,622	5,368	110,990
2021	9,187	61	9,248
	<u>\$ 302,389</u>	<u>\$ 39,828</u>	<u>\$ 342,217</u>

**Gateway Charter High School**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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**Note 8 - Long-Term Liabilities**

Changes in the School's long-term liabilities for fiscal year ended June 30, 2017, are as follows:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Amount Due Within One Year
Capital lease, building	\$ 11,548,640	\$ -	\$ 312,623	\$ 11,236,017	\$ 329,191
Capital lease, equipment	385,540	-	83,151	302,389	90,053
Compensated absences	7,736	13,232	2,539	18,429	13,822
	<u>\$ 11,941,916</u>	<u>\$ 13,232</u>	<u>\$ 398,313</u>	<u>\$ 11,556,835</u>	<u>\$ 433,066</u>

**Note 9 - Employee Benefit Plan**

During the year ended June 30, 2017, the School offered all of its full-time employees, who had attained 21 years of age, a retirement plan under Internal Revenue Code Section 401(k). The employee is allowed to contribute up to a maximum of 100% of their annual gross compensation, subject to certain limitations. The School contributed a matching amount of \$ 3,978 for the year ended June 30, 2017.

**Note 10 - Commitments**

**Management agreement:** The School has a formal agreement through June 2027 with Charter Schools USA at Gateway, LC, a wholly owned subsidiary of Charter Schools USA, Inc. ("CSUSA") to manage, staff and operate the School. All staff of the School are employees of CSUSA. The agreement states that CSUSA will receive cost reimbursements and management fees (the "fee") in annual amounts based on the fee schedule which includes Gateway Charter School, Gateway Charter High School, Six Mile Charter Academy and Cape Coral Charter School or the budgeted amount approved by the Board of Directors based on enrollment and School performance. The total amount of fee for the year ended June 30, 2017 was \$ 4,225,256. For the year ending June 30, 2017, there was no fee allocated to the School and CSUSA contributed \$ 795,365 to the School.

The School also has an amount due to CSUSA of \$ 550,130 at June 30, 2017 for expenses paid on behalf of the School.

**Lease agreement:** In 2007, the Lee County Industrial Development Authority (the "Authority") issued \$ 80,520,000 in Tax Exempt Industrial Development Revenue Bonds, Series 2007A and \$ 1,645,000 in Taxable Industrial Development Revenue Bonds, Series 2007B pursuant to an Indenture of Trust between the Authority and a trustee to make a loan to Lee County Community Charter Schools, LLC (the "LLC") to finance the acquisition of the facilities of five charter schools under Southwest Charter Foundation, Inc. (the "Foundation").

Pursuant to a loan agreement, the Authority loaned the proceeds of the Bonds to the LLC. In order to secure the payment of the principal and interest on the Bonds, the Authority assigned all of its rights and interest in the loan agreement to the trustee. The Bonds are payable from and secured by a lien upon and pledge of payments to be received by the trustee.

**Note 10 - Commitments (continued)**

The School leases its facility from the LLC (Note 7). The capital lease payments and term of the lease are based on the debt service requirements of the Bonds. These payments are made from revenues received from the School District of Lee County for the operation of the schools. The Foundation is obligated under the Indenture to deposit all Charter revenues received from the School District and additional revenues, if any, directly with the trustee during the term of the lease. The payments are applied by the trustee to make sinking fund payments and pay for operating expenses.

**Post-retirement benefits:** The School does not provide post-retirement benefits to retired employees.

**Note 11 - Capital Appropriations Funding**

The Florida Department of Education has approved a Charter School Capital Outlay (CSCO) award for the School. In each year that funds are appropriated by the state for charter school capital outlay purposes, those funds are allocated among eligible charter schools. The funds for the School's allocation are transferred to the School once a CSCO Plan has been provided to and approved by the sponsoring district. The School's CSCO Award totaled \$ 180,412 for the 2016/2017 school year which has been recognized as revenue in the accompanying basic financial statements. If the CSCO funds are used to acquire tangible property assets, the School District has a reversionary interest in those assets. In the event of nonrenewal, termination or breach of the charter school agreement, ownership of the assets would automatically revert to the School District. The School has elected to use these funds to pay a portion of the interest expense on the facility.

**Note 12 - Risk Management**

The School is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets and natural disasters. The School has obtained property insurance from commercial companies including, but not limited to, general liability and errors and omissions insurance. There were no claims in excess of insurance coverage limits during the past 3 years. As disclosed in Note 10, CSUSA employs all of the employees of the School. As a result, the School is not exposed to medical or workers' compensation claims for these individuals.

**Note 13 - Transfer In**

In 2007, a majority of the Schools governed by Southwest Charter Foundation, Inc. were involved in a bond issuance for the financing and acquisition of facilities for the Schools to occupy (Note 10). The Schools pay amounts under the indenture of trust which are considered their portion of the principal and interest payments on the Bonds. Due to the expansion and creation of Gateway Intermediate Charter School, there is a "Transfer In" of \$ 188,911 in the statement of activities and the statement of revenues, expenditures and change in fund balances for their portion of the payments as they were not a separate entity at the time the transaction was initially recorded.

OTHER INDEPENDENT  
AUDITOR'S REPORTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Gateway Charter High School  
A Department of Southwest Charter Foundation, Inc.  
Fort Myers, 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 Gateway Charter High School (the "School"), a Department of Southwest Charter Foundation, Inc. and a component unit of the School District of Lee County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 7, 2017.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



KEEFE McCULLOUGH

Fort Lauderdale, Florida  
September 7, 2017

## INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS

To the Board of Directors  
Gateway Charter High School  
A Department of Southwest Charter Foundation, Inc.  
Fort Myers, Florida

### Report on the Financial Statements

We have audited the financial statements of Gateway Charter High School (the "School"), a Department of Southwest Charter Foundation, Inc. and a component unit of the School District of Lee County, Florida, as of and for the year ended June 30, 2017, and have issued our report thereon dated September 7, 2017.

### Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.850, Rules of the Auditor General.

### Other Report

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated September 7, 2017, should be considered in conjunction with this management letter.

### Prior Audit Findings

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

### Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Gateway Charter High School.

### Financial Condition

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



Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for the School. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

**Transparency**

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the School maintains on its website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its website the information specified in Section 1002.33(9)(p), Florida Statutes.

**Other Matters**

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

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

**Purpose of this Letter**

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



KEEFE McCULLOUGH

Fort Lauderdale, Florida  
September 7, 2017