

EXPLORE KNOWLEDGE ACADEMY
CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2017

(With Independent Auditor's Report Thereon)

*The report accompanying these financial statements
was issued by Watkins Jackson CPAs, PLLC,
a Nevada Professional Limited Liability Company.*

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WATKINS JACKSON CPAs

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Explore Knowledge Academy Charter School
Las Vegas, Nevada

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of the Explore Knowledge Academy Charter School (the "School"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements 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. 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 and the aggregate remaining fund information of Explore Knowledge Academy Charter School as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 24 through 25, and the supplemental pension information on page 26 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Explore Knowledge Academy's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Nevada Department of Education and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2017, on our consideration of the Explore Knowledge Academy Charter School's internal control over financial reporting and 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 Explore Knowledge Academy Charter School's internal control over financial reporting and compliance.



Watkins Jackson CPAs
November 17, 2017
Las Vegas, Nevada

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

The discussion and analysis of Explore Knowledge Academy Charter School's ("the School") financial performance provides an overview of the School's financial activities for fiscal year ended June 30, 2017. Please read it in conjunction with the Independent Auditor's Report on pages 1 and 2, and the School's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

Special education revenues accounted for \$245,667 or 4.49% of total revenues, and general revenues accounted for \$5,224,887 or 95.51%. E-Rate Funds were received to provide discounts for telecommunications utilities, primarily the internet. Currently, the School does not receive any significant facilities/lease aid funding from Federal, State, and Local entities. The general fund reported a positive fund balance of \$1,590,436.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

REPORTING EXPLORE KNOWLEDGE ACADEMY AS A WHOLE

The Statements of Net Assets and Statement of Activities

Fiscal year 2017 is the school's fourteenth year of operation. One of the most important questions asked about School finances is, "Is the school better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid. These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as educational related legislation, student enrollment growth, facility conditions, and other issues in arriving at their conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major funds and fund financial statements begins on page 10 and provides detailed information about the most significant funds-not the School as a whole. Some funds are required to be established by State statute, while many other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions. The School uses four funds, the general fund and three special revenue funds, which the modified accrual basis of accounting approach as further described in the notes to the financial statements.

Governmental Funds

Most of the Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or less financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities exceeded assets by \$3,842,464 at the close of the fiscal year.

An analysis of fiscal year 2017:

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
STATEMENTS OF NET POSITION
GOVERNMENT ACTIVITIES - GENERAL
JUNE 30,

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS				
Current assets	\$ 1,922,250	\$ 1,917,971	\$ 4,279	0%
Capital assets	7,215,085	7,480,154	(265,069)	-4%
Deferred outflows of resources	<u>1,233,632</u>	<u>626,349</u>	<u>607,283</u>	97%
Total assets and deferred outflows of resources	<u>10,370,967</u>	<u>10,024,474</u>	<u>346,493</u>	3%
LIABILITIES				
Current liabilities	476,398	437,881	38,517	9%
Long-term liabilities	12,786,300	12,268,650	517,650	4%
Deferred inflows of resources	<u>950,733</u>	<u>1,117,811</u>	<u>(167,078)</u>	-15%
Total liabilities and deferred inflows of resources	<u>14,213,431</u>	<u>13,824,342</u>	<u>389,089</u>	3%
Total net deficit	<u>\$ (3,842,464)</u>	<u>\$ (3,799,868)</u>	<u>\$ (42,596)</u>	1%

Net Position Highlights:

- Current assets was consistent with the prior year with an increase of \$4,279 from fiscal year 2016 to 2017 primarily for the following reasons:
 - The School finished the fiscal year 2017 with \$1,784,038 in cash, which is slightly lower than the 2016 cash balance of \$1,830,546. Approximately \$230,000 in new computers were purchased during the year, causing cash to decrease significantly. Without the capital outlay for new computers the cash balance would be closer to \$2 million dollars at year end, which is primarily a result of cost control efforts during the fiscal year.
- Deferred outflows of resources increased \$607,083 for deferred payments remitted to Nevada PERS for related pension expense for full time employees of the School. The School is informed by PERS what the balance of the deferred outflows of resources is in annual report provided by PERS
- Long-term liabilities increased \$517,650, mostly as a result of net pension liability for the School. At year-end, the liability increased \$741,352 for a total of \$5,669,016.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS
Changes in Net Assets

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND
JUNE 30,

	<u>2017</u>	<u>2016</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
REVENUE				
Local sources	\$ 169,719	\$ 95,542	\$ 74,177	78%
State sources	5,047,054	5,002,166	44,888	1%
Federal sources	8,114	14,742	(6,628)	-45%
Total Revenue	<u>5,224,887</u>	<u>5,112,450</u>	<u>112,437</u>	<u>2%</u>
EXPENDITURES				
Programs instruction				
Salaries	1,847,742	1,814,256	33,486	2%
Benefits	616,199	619,633	(3,434)	-1%
Supplies	16,332	27,271	(10,939)	-40%
Total program expenditures	<u>2,480,273</u>	<u>2,461,160</u>	<u>19,113</u>	<u>1%</u>
Support services				
Staff support	479,058	447,144	31,914	7%
Administration support	414,818	418,790	(3,972)	-1%
Staff benefits	152,421	159,406	(6,985)	-4%
Administration benefits	117,310	142,989	(25,679)	-18%
Purchased services	53,536	56,483	(2,947)	-5%
Capital outlay	233,753	-	233,753	100%
Supplies	126,296	116,785	9,511	8%
Operating services	1,087,387	1,065,481	21,906	2%
Total support services	<u>2,664,579</u>	<u>2,407,078</u>	<u>257,501</u>	<u>11%</u>
Total expenditures	<u>5,144,852</u>	<u>4,868,238</u>	<u>276,614</u>	<u>6%</u>
(Decrease) increase in net position	80,035	244,212	(164,177)	-67%
FUND BALANCES, beginning of year	<u>2,527,660</u>	<u>2,229,670</u>	<u>297,990</u>	<u>13%</u>
FUND BALANCES, end of year	<u>\$ 2,607,695</u>	<u>\$ 2,473,882</u>	<u>\$ 133,813</u>	<u>5%</u>

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Statement of Activities Highlights:

- The School's general revenues increased \$112,437, mostly due to higher basic support per pupil from the State of Nevada.
- The School's regular instruction was consistent with last year and held to only a slight increase of \$19,113 due to cost cutting and not replacing a teacher who provided services in 2016.

Governmental Activities

The net position of the School's governmental activities increased from (\$4,013,436) to (\$3,842,464). The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues which include State aid, funds from the School District and other local sources must support the net cost of the School's programs.

THE SCHOOL'S FUNDS

The year saw a small decrease in fund balance of (\$28,822) which decreased total fund balance to \$1,590,436 on the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds. We are proud of our efforts to remain within our budgetary limits and to find cost saving measures throughout the year.

General Fund

The School's general fund balance shows a slight decrease. The general fund expenditures is for salaries, purchased services, and building lease including facilities and leasehold improvements. The School is a service entity and as such is labor intensive. Also, charter schools are responsible for funding all start-up costs, including facility costs out of the general fund/DSA appropriations.

Total Governmental Funds

The majority of the Explore Knowledge Academy's total revenue 96.9% comes from Federal and State sources. State revenue is contingent upon the School's total enrollment population. Local sources account for 3.1% of total revenues. The reliance on local sources is to support program and facility expenditures that are not subsidized by Federal and State Funds.

BUDGETARY INFORMATION

The School's budget is prepared in accordance with the accrual basis of accounting. The most significant budgeted fund is the General Fund.

Appropriate adjustments are made to the budget based on unanticipated revenue increases or shortfalls due to Federal, State, and Department of Education requirements and/or legislation, lack of contributions, etc. Some appropriations required changes in functional categories due to spending patterns.

CAPITAL ASSETS

The School has \$206,831 invested in capital assets, net of depreciation. This investment in capital assets includes furniture, equipment and leasehold improvements. Current year's depreciation being \$26,922.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Explore Knowledge Academy (“EKA”) saw a decrease in enrollment to 788 student on Count Day in August 2017.

Clark County School District, as our sponsor, continues to support EKA through the Office for Charter Schools, staff trainings, and annual reviews for compliance with statutes and regulations. The school's annual State, County and Private financial audits were again all found in compliance.

The school is flourishing in its new facility. Audits by Standard and Poor’s for the 2016 – 2017 school year found EKA to be financially sound, keeping its BBB- stable rating. EKA has maintained this rating through the life of the bond issue.

In the 2014 – 2015 school year EKA underwent an External Review for the reissuance of its K-12 accreditation through AdvancEd. The school passed the review and remains accredited through the next 6 years.

The Nevada School Performance Framework ranked the Elementary School at 3 stars, the Middle School at 4 stars and the High School at 4 stars in the 2013 – 2014 school year. These rankings remained in effect for the 2016 – 2017 school year.

As the School is funded using the per-pupil ration each year, there is an economy of scale and a financial framework, which sets the parameters for our future growth and determines our budgeting formulas. Facility, payroll and benefits costs continue to be the charter school’s largest overheads and our strategy will continue to be to determine the best route to take to minimize these costs while still delivering the best education possible to our students.

We would like to expand the School's budget through grants, fund-raising, donations, and community partnerships. It is still hoped that our Foundation will be able to concentrate on raising funds to possibly alleviate some or all facility costs so that a larger percentage of each State fund dollar can be spent to directly impact students in the classroom and their programs rather than the financial burden of the operations/facilities overhead costs.

The liabilities of EKA exceeded its assets at the close the fiscal year by (\$3,842,464). The increase is substantially due to a new standard issued by the Governmental Accounting Standards Board (GASB) for pension accounting and financial reporting. This new standard (GASB 68) requires that employers’ report obligations associated with providing pension benefits. Details that define this report on the school’s Government-wide Statement of Net Assets report begins on page 15.

In summary, EKA's major goals are to provide opportunities for our students to learn through technology infused project based learning, continue to be fully accredited and support a foundation to solicit needed funds to accommodate program growth. Licensed teachers, support staff, and contracted services, become more expensive each year and impact the School's operations budget. The management team is very mindful of these factors and works diligently to fine tune the School's financial strategy, always keeping in mind how to best serve the needs and wants of the students and families first.

CONTACTING THE SCHOOL’S FINANCIAL MANAGEMENT

This financial report is designed to a general overview of the School’s finances and accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School’s Finance Manager at (702) 870-5032.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
STATEMENT OF NET POSITION
GOVERNMENT ACTIVITIES - GENERAL
JUNE 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 1,784,038
Due from other governments	71,681
Account receivable - related party, net of allowance of \$93,000	5,839
Prepaid expenses	60,692
Capital assets (net of accumulated depreciation of \$436,743)	206,831
Capital lease (net of accumulated amortization of \$896,066)	<u>7,008,254</u>
Total assets	<u>9,137,335</u>
Deferred outflows of resources	
Pension contribution	<u>1,233,632</u>
LIABILITIES	
Accounts payable	4,492
Accrued payroll and benefits	319,393
Deferred revenue	7,930
Current portion of capital lease	144,583
Net pension liability	5,669,016
Long-term portion of capital lease	<u>7,117,284</u>
Total liabilities	<u>13,262,698</u>
Deferred inflows of resources	
Pension related	<u>950,733</u>
NET POSITION	
Investment in capital assets	206,831
Committed	5,839
Net deficit unrestricted	<u>(4,055,134)</u>
TOTAL NET POSITION	<u>\$ (3,842,464)</u>

See Accompanying Notes to the Financial Statements

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions	Expenses	Operating Grants and Contributions	Net (Expense) Revenues and Changes in Net Position Governmental Activities
Governmental activities			
Program instruction	\$ 2,679,860	\$ 228,434	\$ (2,451,426)
Support services	1,899,452	17,233	(1,882,219)
Interest expense	514,135	-	(514,135)
Depreciation and amortization	206,135	-	(206,135)
 Total Charter School	 \$ 5,299,582	 \$ 245,667	 \$ (5,053,915)
General revenues			
Distributive school account			\$ 5,186,958
Federal aid unrestricted			8,114
Local aid unrestricted			29,350
Earnings on cash and equivalents			465
Total general revenues			5,224,887
Change in net position			170,972
Net deficit beginning of year, as originally reported			(3,799,868)
Prior year adjustment to capital lease, restated			(213,568)
Net deficit beginning of year, as restated			(4,013,436)
End of year			\$ (3,842,464)

See Accompanying Notes to the Financial Statements

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Special Education Revenue Fund	Total Governmental Funds
ASSETS			
Cash	\$ 1,784,038	\$ -	\$ 1,784,038
Due from other governments	71,681		71,681
Account receivable - related party, net of allowance of \$93,000	5,839		5,839
Prepaid expenses	60,692		60,692
Total current assets	1,922,250		1,922,250
Total assets	\$ 1,922,250	\$ -	\$ 1,922,250
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,491	\$ -	\$ 4,491
Accrued payroll and benefits	319,393	-	319,393
Deferred income	7,930	-	7,930
Total current liabilities	331,814	-	331,814
FUND BALANCES			
Nonspendable	60,692		60,692
Committed	5,839		5,839
Unassigned	1,523,905	-	1,523,905
Total fund balance	1,590,436	-	1,590,436
Total liabilities and fund balance	\$ 1,922,250	\$ -	\$ 1,922,250

See Accompanying Notes to the Financial Statements

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balance - governmental funds \$ 1,590,436

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

Capital assets net of the related depreciation are not reported in the Governmental Fund financial statements because they are not current financial resources, but they are reported in the statement of net position.

Capital assets	643,574	
Less: Accumulated Depreciation	<u>(436,743)</u>	
		206,831

Capital leases net of the related amortization are not reported in the Governmental Fund financial statements because they are not current financial resources, but they are reported in the statement of net position.

Capital asset lease	7,904,320	
Less: Accumulated Amortization	<u>(896,066)</u>	
		7,008,254

Capital lease		<u>(7,261,867)</u>
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Deferred outflows/inflows of resources are not current financial resources or liabilities and, therefore, not reported in the Governmental Fund financial statements.

Deferred outflows related to pensions	1,233,632	
Deferred inflows related to pensions	<u>(950,733)</u>	
		282,899

Net pension liability is not due and payable in the current period and therefore is not reported in the Governmental Fund financial statements.		<u>(5,669,016)</u>
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Total net position - governmental activities		<u><u>\$ (3,842,464)</u></u>
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EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General	Special Education Revenue Fund	Total Governmental Funds	Enterprise Funds	Total Funds
REVENUE					
Local sources	\$ 169,719	\$ -	\$ 169,719	\$ -	\$ 169,719
State sources	5,047,054	153,092	5,200,146	-	5,200,146
Federal sources	8,114	92,575	100,689	-	100,689
Total Revenue	5,224,887	245,667	5,470,554	-	5,470,554
EXPENDITURES					
Programs instruction					
Salaries	1,847,742	164,834	2,012,576	-	2,012,576
Benefits	616,199	60,280	676,479	-	676,479
Supplies	16,332	3,320	19,652	-	19,652
Total program expenditures	2,480,273	228,434	2,708,707	-	2,708,707
Support services					
Staff support	479,058	92,575	571,633	-	571,633
Administration support	414,818	-	414,818	-	414,818
Staff benefits	152,421	-	152,421	-	152,421
Administration benefits	117,310	-	117,310	-	117,310
Purchased services	53,536	33,515	87,051	-	87,051
Capital outlay	233,753	-	233,753	-	233,753
Supplies	126,296	-	126,296	-	126,296
Operating services	1,087,387	-	1,087,387	-	1,087,387
Total support services	2,664,579	126,090	2,790,669	-	2,790,669
Total expenditures	5,144,852	354,524	5,499,376	-	5,499,376
Excess of expenditures over revenue	80,035	(108,857)	(28,822)	-	(28,822)
FUND BALANCES, beginning of year	2,527,660	(913,377)	1,614,283	4,975	1,619,258
FUND BALANCES, end of year	\$ 2,607,695	\$ (1,022,234)	\$ 1,585,461	\$ 4,975	\$ 1,590,436

See Accompanying Notes to the Financial Statements

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
RECONCILIATION OF THE STATEMENT OF ACTIVITIES TO THE STATEMENT OF REVENUE
EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
JUNE 30, 2017

Net change in fund balance - total governmental fund \$ (28,822)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Capital outlay to purchase capital assets	233,753	
Less current year depreciation expense	<u>(26,922)</u>	
		206,831

Capital asset lease current year amortization (179,213)

The issuance of capital leases or long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Current year changes in capital leases 139,167

Pension contributions are reported as expenditures in the governmental funds when paid; however, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the school's report date. Pension expense, which is the change in the net pension liability adjusted for changes in outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

Pension expense - difference between actuarially determined liability and actual contributions made		<u>33,009</u>
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Change in net position - governmental activities \$ 170,972

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies

The financial statements of the Explore Knowledge Academy Charter School (the “School”) have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) applicable to government units, with the exception of the criteria mandated by the Nevada Department of Education requiring charter schools to expense all asset purchases under \$5,000. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting entity – Explore Knowledge Academy Charter School is a “charter school”, established in 2002 under Nevada Revised Statute 386.500 to 386.610. The School’s major operation is to offer an educational environment where learning is maximized through individual instruction, interdisciplinary projects and access to a full spectrum of technological resources for kindergarten through twelfth grade in Southern Nevada.

The School receives funding from state and government sources and must comply with the requirements of these funding sources. However, the School is not included in any other governmental “reporting entity,” as defined in GASB pronouncements, since its Governing Body has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Government-wide and fund financial statements – The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Any interfund activities related to services provided and used between functions are not eliminated. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus and basis of accounting – The term, “basis of accounting,” refers to the method used for revenues and expenditure recognition in the accounts and reporting in the financial statements and relates to the timing of the measurements made, regardless of the measurement focus applied. Under GAAP, all governmental funds are accounted using a modified accrual basis of accounting under which revenues are recognized when they become measurable and available as net current assets. Expenditures are recognized generally under the modified accrual basis of accounting in use when the related fund liability is incurred.

Government-wide Financial Statements. The government-wide financial statements are reported on a consolidated basis and using the economic resources measurement focus. The government-wide financial statements report information on all activities of the School except for fiduciary activity using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued)

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The School has the following fund categories (further divided by fund type) and account groups:

General Fund – The General Fund is the general operating fund for the School. It is used to account for all financial resources not accounted in other funds.

Special Education Fund – The special education fund is used to account for revenues received and expenditures made to fund special education program. Financing is provided through the Clark County School District funded by the U.S. Department of Education.

Debt Service Fund – Used to account for and report financial resources for, and the payment of, principal and interest.

Enterprise Fund – The Enterprise Fund is used to account for funds collected for specific educational purposes.

Student Activities Fund – The Student Activities Fund is used to account for student fundraising activities.

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

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the School’s policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All governmental and business-type activities and enterprise funds of the School follow FASB Accounting Standards Codifications (“ASC”), Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Cash – The School considers cash equivalents to be those securities with an original maturity of three months or less.

Prepaid expenses – Prepaid expenses include payments to vendors for services applicable to future accounting periods such as rental payments and insurance premiums.

Due from other governments – This account includes amounts due from other governments for per-pupil funding and for grants, which are expected to be received within the subsequent year. All other outstanding balances between funds are reported as “due to/from other funds.”

Account receivable – related party – The balance consists of activity between the School and Explore Knowledge Foundation (the “Foundation”), related to bond expenses, audit fees, and not-for-profit status expenses that are to be reimbursed by the Foundation. Account receivable – related party is shown net of allowance of \$93,000.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued)

Compensated absences – It is the School’s policy to permit employees to accumulate an unlimited number of sick days; however, accumulated sick days do not vest under the School’s policy, therefore, a liability for unused sick days is not recorded in the financial statements.

Capital assets – The School's capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are listed at their estimated fair value at the date of donation. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the School to capitalize all capital assets costing more than \$5,000 with an estimated useful life of three or more years. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. All depreciable assets are depreciated using the straight-line method of depreciation over the assets’ useful lives. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated over the following estimated useful lives:

	Years
Building and improvements	39
Computer equipment	3-5
Equipment	5
Furniture	5

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents the consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources until that time. The School reflects deferred outflows of resources which are related to pensions reported in the statement of net position under the accrual basis of accounting.

In addition to liabilities, the statement of net 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School reflects deferred inflows of resources which are related to pensions reported in the statement of net position under the accrual basis of accounting.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense, information about the fiduciary net position of the Public Employees’ Retirement System of Nevada (PERS) and additions to/deductions from PERS’s fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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. Actual results could differ from those estimates.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued)

Net assets/ Fund balances – In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund-type definitions. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned.

- Non-spendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents inventories and prepaid items.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

The School has no restricted fund balances at year ended June 30, 2017.

Net position – In the government-wide statements, Net Position on the Statement of Net Position is and displayed in three components:

- Invested in Capital Assets, Net of Related Debt. This is the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets. School has no investment in capital assets or debt.
- Restricted. The component of net position that reports the constraints placed on the use of assets by the external parties such as creditors, grantors, contributors, and/or enabling legislation.
- Unrestricted. All other net positions that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Expenditure line items – The statements of revenues, expenditures, and changes in fund balances, as well as the statement of activities summarize current expenditure data by major program classifications pursuant to the provisions of *Financial Accounting for Local and State School Systems* as adopted by the Nevada Department of Education. Below is a brief description of these expenditure classifications.

- Regular programs consist of activities designed to provide elementary and secondary students with learning experiences to prepare them as citizens, family members, and non-vocational workers.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued)

- Special programs consist of activities designed primarily to deal with students having special needs. The special programs include kindergarten and elementary services for the gifted and talented, mentally challenged, physically handicapped, emotionally disturbed, culturally different, learning disabled, bilingual, and special programs for other types of students.

- Support services represent all charges not readily assignable directly to a program. Student and instructional staff support as well as the overall general and administrative costs of the School are classified as support services. Also included in this line item are costs of operating, maintaining and constructing the physical facilities of the School.

Advertising costs – All costs associated with advertising and promotions are expensed in the year incurred.

2. Compliance with Nevada revised statutes and the Nevada Administrative Code

Budgetary information – The School is required by the State of Nevada Department of Education (Department) under NRS 386.550(n) and the Nevada Administrative Code (NAC) 387.725 to adopt a tentative budget by April 15th and a final budget no later than June 8 of each year under NAC 386.370, but is not required by the Department to augment the budget during the year. Further, the School is not required under NRS 386.550 to adopt a final budget pursuant to NRS 354.598 or otherwise comply with any provisions of Chapter 354 of the NRS. In essence, augmentation of the School’s budget is neither required nor prohibited. The School did not augment its budget. The original and final budgets are presented in the Budgetary Comparison schedules.

Excess of Budget over Actual Expenditures

Total budget appropriations exceeded actual expenditures in the following individual funds:

	Budget	Actual	Variance
General Fund	\$ 5,335,596	\$ 5,200,146	\$ (135,450)
Special Revenue Funds:			
Special Education	\$ 90,000	\$ 100,689	\$ 10,689

See attached schedule of budget versus actual for detail.

3. Cash

The School maintains cash balances at two financial institutions with accounts insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2017, total uninsured cash balances totaled \$980,078, none of which was collateralized. The School has not suffered any losses in these accounts. The School has no policy for interest rate, credit, or custodial risk.

4. Account receivable – related party

The School has an account receivable due from Explore Knowledge Foundation, a non-profit corporation with common affiliation. The balance is noninterest bearing and due on demand and totals \$5,839, net of allowance of \$93,000 as of June 30, 2017.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

5. Capital assets

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

Governmental Activities:	Beginning Balance July 1, 2016	Increases	Decreases	Ending Balance
Furniture and equipment	\$ 322,715	\$ 233,753	\$ -	\$ 556,468
Leasehold improvements	87,106	-	-	87,106
	\$ 409,821	\$ -	\$ -	\$ 643,574
Less: accumulated depreciation	(409,821)	(26,922)	-	(436,743)
Governmental capital assets, net	<u>\$ -</u>	<u>\$ 206,831</u>	<u>\$ -</u>	<u>\$ 206,831</u>

Undistributed depreciation expense was \$26,922 for the year ended June 30, 2017.

6. Operating leases

The School entered into an agreement in November 2014 to lease office equipment for a period of 72 months, with monthly payments of \$1,570 for the first 26 months and increasing to \$3,389 for months 27 through 72. Equipment rental expense for the year ended June 30, 2017 was approximately \$21,000.

Future minimum lease payments are as follows:

Year	Amount
2018	\$ 40,668
2019	40,668
2020	40,668
2021	16,945
Total	<u>\$ 138,949</u>

7. Capital leases

Related party capital leases – On September 1, 2011, the School entered into a capital lease agreement with a non-related party to finance computers and related equipment. On June 1, 2012 and effective as of June 29, 2012, the School entered into a capital lease for the use of the building and related property with Explore Knowledge Foundation (the “Foundation”), a non-profit corporation with common affiliation. This new lease amended the agreement entered into by the school with the Foundation on June 6, 2011. During the year the Foundation issued bonds as part of an Explore Knowledge Foundation Project in which the Foundation purchased the buildings the School is using with the bond proceeds. The Foundation also purchased computer equipment with the bond proceeds. The new capital lease with the Foundation incorporated the lease for computers and related equipment entered into in September 2011 into one lease in the amount of \$48,838, payable interest only for the first six months beginning August 1, 2012 and escalating to \$54,018 after the six month period. Lease payments change every year on the anniversary date for a term of 31 years, and are payable directly to the bank acting as Trustee of the bond issuance. The future minimum lease payments are reflected in the schedule below and do not include a bond reserve requirement payment in the amount of \$657,400.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

7. Capital leases (continued)

Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2018	\$ 650,717
2019	651,986
2020	653,122
2021	653,682
2022	653,668
Thereafter	<u>13,145,847</u>
Total minimum lease payments	16,409,022
Less: amount representing interest	<u>(9,147,155)</u>
Present value of minimum lease payments	<u>\$ 7,261,867</u>

Capital leases consist of computer and related equipment with a purchase price of \$745,319 and buildings and improvements of \$7,904,319, less accumulated amortization of \$1,641,384 included in depreciation expense.

8. Defined benefit pension plan

The School is a public employer participating in the Public Employees Retirement System of the State of Nevada (PERS), a defined benefit cost-sharing multiple-employer program, and all full-time teachers are covered under the system.

Benefits Provided

Benefits, as required by the Nevada Revised Statutes (NRS or statute), are determined by the number of years of accredited service at time of retirement and the member's highest average compensation in any thirty-six consecutive months with special provisions for members entering the System on or after January 1, 2010, and July 1, 2015. Benefit Payments to which participants or their beneficiaries may be entitled under the plan include pension benefits, disability benefits, and survivor benefits.

Monthly benefit allowances for members are computed as 2.5% of average compensation for each accredited year of service prior to July 1, 2001. For service earned on and after July 1, 2001, this multiplier is 2.67% of average compensation. For members entering the System on or after January 1, 2010, there is a 2.5% service time factor and for regular members entering the System on or after July 1, 2015, there is a 2.25% factor. The System offers several alternatives to the unmodified service retirement allowance which, in general, allow the retired employee to accept a reduced service retirement allowance payable monthly during his or her lifetime and various optional monthly payments to a named beneficiary after his or her death. Post-retirement increases are provided by authority of NRS 286.575 - .579.

Vesting

Regular members entering the System prior to January 1, 2010, are eligible for retirement at age 65 with five years of service, at age 60 with 10 years of service, or at any age with thirty years of service. Regular members entering the System on or after January 1, 2010, are eligible for retirement at age 65 with five years of Public Employees' Retirement System of Nevada 16 service, or age 62 with 10 years of service, or any age with thirty years of service. Regular members who entered the System on or after July 1, 2015, are eligible for retirement at age 65 with 5 years of service, or at age 62 with 10 years of service or at age 55 with 30 years of service or any age with 33 1/3 years of service.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2017

8. Defined benefit pension plan (continued)

The normal ceiling limitation on monthly benefits allowance is 75% of average compensation. However, a member who has an effective date of membership before July 1, 1985, is entitled to a benefit of up to 90% of average compensation. Members become fully vested as to benefits upon completion of five years of service.

Contributions

The authority for establishing and amending the obligation to make contributions and member contribution rates, is set by statute. New hires, in agencies which did not elect the Employer-Pay Contribution (EPC) plan prior to July 1, 1983, have the option of selecting one of two contribution plans. Contributions are shared equally by employer and employee. Employees can take a reduced salary and have contributions made by the employer (EPC) or can make contributions by a payroll deduction matched by the employer.

The Systems basic funding policy provides for periodic contributions at a level pattern of cost as a percentage of salary throughout an employee's working lifetime in order to accumulate sufficient assets to pay benefits when due.

The System receives an actuarial valuation on an annual basis indicating the contribution rates required to fund the System on an actuarial reserve basis. Contributions actually made are in accordance with the required rates established by the Nevada Legislature. These statutory rates are increased/decreased pursuant to NRS 286.421 and 286.450.

The actuary funding method used is the Entry Age Normal Cost Method. It is intended to meet the funding objective and result in a relatively level long-term contributions requirement as a percentage of salary. For the fiscal year ended June 30, 2016, the Statutory Employer/employee matching rate was 14.5% for Regular employees. The Employer-pay contribution (EPC) rate was 28% for Regular employers.

Investment Policy

The System policies which determine the investment portfolio target asset allocation are established by the PERS Board. The asset allocation is reviewed annually and is designed to meet the future risk and return needs of the System.

The following was the PERS Board adopted policy target asset allocation as of June 30, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Geometric Expected Real Rate of Return</u>
Domestic Equity	42%	5.50%
International Equity	18%	5.75%
Domestic Fixed Income	30%	0.25%
Private Market	10%	6.80%

As of June 30, 2016, PERS' long-term inflation assumption was 3.5%.

Pension Liability and Discount Rate Sensitivity

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions in the PERS pension plan relative to the total contributions of all participating PERS employers. At July 1, 2016, the School's proportion was 0.04213%.

The following presents the net pension liability of the School as of June 30, 2016, calculated using the discount rate of 8.00%, as well as what the School's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current discount rate:

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

8. Defined benefit pension plan (continued)

	1% Decrease in Discount Rate (7.00%)	Discount Rate (8.00%)	1% Increase in Discount Rate (9.00%)
Net Pension Liability	\$ 8,309,670	\$ 5,669,016	\$ 3,472,024

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the PERS Comprehensive Annual Financial Report, available on the PERS website.

Actuarial Assumptions

The Systems net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation Rate	3.50%
Payroll Growth	5.00% including inflation
Investment Rate of Return	8.00%
Productivity Pay Increase	0.75%
Projected Salary Increases Regular:	4.60% to 9.75%, depending on service
	Rates include inflation and productivity increases
Consumer Price Index	3.50%
Other Assumptions	Same as those used in the June 30, 2016 funding actuarial valuation.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of the experience review completed in 2013.

The discount rate used to measure the total pension liability was 8.00% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2016, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

For the year ended June 30, 2017, the School recognized pension expense of \$608,879. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 379,612
Net difference between projected and actual earnings on pension plan investments	527,006	-
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	-	571,121
School contributions subsequent to the measurement date	706,626	-
Total	\$ 1,233,632	\$ 950,733

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

8. Defined benefit pension plan (continued)

\$706,626 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) is 6.48 years.

Other estimated amounts reported as deferred (outflows) of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 146,718
2019	146,718
2020	146,718
2021	146,718
2022	146,718
Thereafter	217,143
	<u>\$ 950,733</u>

Reconciliation of Net Pension Liability

	<u>Amount</u>
Beginning Net Pension Liability	\$ 4,927,664
Pension Expense	608,879
Employer Contributions	(561,611)
Change in Deferred Outflows	27,006
Change in Deferred Inflows	167,078
	<u>167,078</u>
Ending Net Pension Liability	<u>\$ 5,669,016</u>

Additional information is located in the PERS Comprehensive Annual Financial Report (CAFR), available on the PERS' website at www.nvpers.org under Quick Links - Publications. The report may also be obtained by calling 775-687-4200.

9. Capital leases prior period adjustment and change in accounting estimate

The School has been depreciating assets related to the capital lease along the same amortization timeframe that the capital lease liabilities have been amortized. During fiscal year 2017, the School changed to a straight-line depreciation resulting in an additional \$292,687 in accumulated depreciation added to the prior year financial statements.

10. Compliance with Nevada revised statutes and Nevada Administrative code

The School conformed to all significant statutory constraints on the financial administration during the fiscal year.

11. Subsequent events

The School has evaluated subsequent events through November 17, 2017, the date the financial statements were issued.

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>FY 2017</u>	<u>Budget</u>	<u>\$ Over Budget</u>
REVENUES			
Revenue-State Sources	\$ 5,047,054	\$ 5,191,090	\$ (144,036)
Revenue from Local Sources	169,719	100,000	69,719
Student Activities	-	-	-
Revenue from Federal Sources	8,114	-	8,114
TOTAL REVENUES	<u>5,224,887</u>	<u>5,291,090</u>	<u>(66,203)</u>
EXPENDITURES			
Personnel Services-Salaries	2,741,618	2,689,166	52,452
Personnel Svcs-Employee Benefit	885,930	1,069,453	(183,523)
Purchased Prof & Tech Services	53,536	44,400	9,136
Other Purchased Services	-	-	-
Supplies	139,615	103,900	35,715
Operating services	1,079,036	1,068,600	10,436
Equipment	236,766	5,000	231,766
Dues and other expenses	8,351	2,000	6,351
TOTAL EXPENDITURES	<u>5,144,852</u>	<u>4,982,519</u>	<u>162,333</u>
TOTAL EXPENDITURES OVER REVENUES	<u>80,035</u>	<u>308,571</u>	<u>(228,536)</u>
FUND BALANCES, beginning of year	<u>2,527,660</u>	<u>1,619,258</u>	
FUND BALANCES, end of year	<u>\$ 2,607,695</u>	<u>\$ 1,927,829</u>	<u>\$ (228,536)</u>

See accompanying notes to the required supplementary information

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SPECIAL REVENUE FUND (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>FY 2017</u>	<u>Budget</u>	<u>\$ Over Budget</u>
REVENUES			
Revenue-State Sources	\$ 153,092	\$ 144,506	\$ 8,586
Revenue from Local Sources	-	-	-
Student Activities	-	-	-
Revenue from Federal Sources	92,575	90,000	2,575
TOTAL REVENUES	<u>245,667</u>	<u>234,506</u>	<u>11,161</u>
EXPENDITURES			
Personnel Services-Salaries	164,834	221,383	(56,549)
Personnel Svcs-Employee Benefit	60,280	84,281	(24,001)
Purchased Prof & Tech Services	-	-	-
Other Purchased Services	126,090	123,410	2,680
Supplies	3,320	13,035	(9,715)
Operating services	-	-	-
Equipment	-	-	-
Dues and other expenses	-	-	-
TOTAL EXPENDITURES	<u>354,524</u>	<u>442,109</u>	<u>(87,585)</u>
TOTAL EXPENDITURES OVER REVENUES	<u>(108,857)</u>	<u>(207,603)</u>	<u>98,746</u>
FUND BALANCES, beginning of year	<u>(913,377)</u>	<u>(913,377)</u>	
FUND BALANCES, end of year	<u>\$ (1,022,234)</u>	<u>\$ (1,120,980)</u>	<u>\$ 98,746</u>

See accompanying notes to the required supplementary information

EXPLORE KNOWLEDGE ACADEMY CHARTER SCHOOL
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2017

SCHEDULE OF EXPLORE KNOWLEDGE ACADEMY'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEVADA
 LAST 10 FISCAL YEARS*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's proportion of the net pension liability (asset)	0.04213%	0.04300%	0.04575%
School's proportionate share of the net pension liability (asset)	\$ 5,669,016	\$ 4,927,664	\$ 4,768,576
School's covered-employee payroll	\$ 2,637,826	\$ 2,468,216	\$ 2,539,061
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	214.912%	199.645%	187.809%
Plan fiduciary net position as a percentage of the total pension liability	72.2300%	75.1261%	76.3121%

*The amounts presented for each fiscal year were determined as of 7/1.

GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, EKA will present information for those years for which information is available.

SCHEDULE OF EXPLORE KNOWLEDGE ACADEMY'S CONTRIBUTIONS
 PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEVADA
 LAST 10 FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 553,896	\$ 564,169	\$ 624,533
Contributions in relation to the contractually required contribution	<u>(553,896)</u>	<u>(564,169)</u>	<u>(624,533)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	2,637,826	2,468,216	2,539,061
Contributions as a percentage of covered-employee payroll	20.99820%	22.85736%	24.59701%

**Explore Knowledge Academy Charter School
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed-through program from the Clark County School District:			
Special Education - Grants to States (IDEA Part B)	84.027		<u>\$ 92,575</u>
<i>Total U.S. Department of Education</i>			<u>92,575</u>
<i>Total Expenditures of Federal Awards</i>			<u><u>\$ 92,575</u></u>

See accompanying notes to the required supplementary information



WATKINS JACKSON CPAs

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
Explore Knowledge Academy Charter School
Las Vegas, Nevada

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 Explore Knowledge Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 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 opinion 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watkins Jackson CPAs

Watkins Jackson CPAs
November 17, 2017
Las Vegas, Nevada