



**LAKE WALES CHARTER SCHOOLS, INC.
DALE R. FAIR BABSON PARK ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT
OF THE DISTRICT SCHOOL BOARD OF
POLK COUNTY, FLORIDA**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORTS THEREON**

JUNE 30, 2011



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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Dale R. Fair Babson Park Elementary School (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the School's financial statements, which follow this section.

Lake Wales Charter Schools, Inc. (the "Company") operates a system of six public charter schools in the Lake Wales, Florida area, and the School is a part of that system. In addition, a central administrative office provides certain management and administrative services to the School. Even though there is only one corporate entity, each of the six public charter schools and the central administrative office function as separate entities.

FINANCIAL HIGHLIGHTS

- The School's net assets increased compared to the prior year. For the fiscal year ended June 30, 2011, the School's revenues exceeded expenses by \$398,271. This represents a decline from the prior year when revenues exceeded expenses by \$883,479.
- Overall, revenues decreased by approximately \$472,000, which represents a 12% decrease from the prior year.
- Overall, expenses increased by approximately \$13,000, which represents a less than 1% increase from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.
 - The *governmental funds* financial statements tell how general school services were financed in the short term, as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the independent auditor's report on internal control over financial reporting and on compliance and other matters required by *Government Auditing Standards*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

The following table summarizes the major features of the School's financial statements, including the portion of the School they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

	Government-wide Statements	Fund Statements Governmental Funds
Scope	Entire School	The activities of the School that are not proprietary or fiduciary
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Financial Statements

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – is one way to measure the School's financial health or position. Over time, increases or decreases in the School's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the School, one needs to consider additional non-financial factors such as changes in the School's student base, the quality of the education provided and the safety of the School.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is a self-balancing set of accounts which the School uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law, and the School may establish other funds to control and manage money for particular purposes, such as for federal grants.

The School currently has one type of fund:

- *Governmental funds* – most of the School's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the differences between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The School's combined net assets as of June 30, 2011 and 2010 are summarized as follows – see table below.

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2010</u>	<u>2011</u>	<u>(Decrease)</u>
Current and other assets	\$ 291,967	\$ 706,507	142%
Capital assets, net	59,717	48,453	-19%
Total assets	<u>351,684</u>	<u>754,960</u>	<u>115%</u>
Current and other liabilities	<u>84,509</u>	<u>89,514</u>	<u>6%</u>
Total liabilities	<u>84,509</u>	<u>89,514</u>	<u>6%</u>
Net assets:			
Invested in capital assets	59,717	48,453	-19%
Restricted	4,946	-	-100%
Unrestricted	<u>202,512</u>	<u>616,993</u>	<u>205%</u>
Total net assets	<u>\$ 267,175</u>	<u>\$ 665,446</u>	<u>149%</u>

Current and other assets increased through a rise in the amount due from the central administrative office. Since the Company maintains cash deposits on a pooled basis for all of its charter schools, the amount due from the central administrative office represents amounts advanced by the School to the Company for operating costs and represents the School's share of the pooled cash balance. Net capital assets decreased due to depreciation expense in excess of capital asset purchases. Current and other liabilities increased as a result of an increase in compensated absences payable. The increase in total net assets from the prior fiscal year is due to the current year operating surplus and capital asset activity as noted above.

Change in Net Assets

The School's total revenues decreased by 12% to \$3,454,608, and the total cost of all programs and services increased by less than 1% to \$3,056,337 – see table below.

	Governmental Activities		Increase (Decrease)
	2010	2011	
Revenues:			
Federal sources passed through local school district	\$ 232,475	\$ 303,957	31%
State and local sources	2,832,516	2,885,983	2%
Contributions and other revenue	861,751	264,668	-69%
Total revenues	3,926,742	3,454,608	-12%
Expenses:			
Instruction	2,004,303	2,092,228	4%
Pupil personnel services	34,521	35,920	4%
Instructional media	58,568	62,122	6%
Instruction and curriculum development	39,578	42,313	7%
Instructional staff training	-	2,255	100%
Board	12,300	13,080	6%
General administration	147,026	18,341	-88%
School administration	452,391	504,743	12%
Fiscal services	1,700	271	-84%
Pupil transportation	97,134	87,722	-10%
Operation of plant	142,597	151,847	6%
Maintenance of plant	-	500	100%
Community services	53,145	44,995	-15%
Total expenses	3,043,263	3,056,337	0%
Change in net assets	\$ 883,479	\$ 398,271	-55%

The increase in revenue from federal sources was due to additional federal funds received and expended under the Education Jobs Fund in 2011. Revenue under federal grants is only recognized to the level of eligible expenses incurred. Revenues from state and local sources encompass 84% of total revenues for fiscal 2011. Contributions and other revenue decreased from the 2010 level with the elimination of one-time contributions from the system's schools to complete the Company's plan to eliminate the fund deficit at the School.

Instruction and instruction-related services increased by approximately 5% during fiscal 2011 as a result of the slight rise in student enrollment and available stimulus funds for personnel. School administration expenses increased due to an increase in internal account activity and a higher Company management fee recorded in this function. The School utilized the Company transportation system in 2011. Decreased community services expenses were due to reduced program expenses for the after-school program.

Audit fees are recorded in board expenses. The general administration expenses reflect the administration fee paid to the School Board based on FEFP revenue. The decrease in the general administration expenses is attributed to a statutory change in the administrative fee charged by the School Board.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental funds reported a combined fund balance of \$702,665, which is an increase from the prior year. Revenues decreased overall for the same reasons described above. There was no significant change in expenditures from fiscal 2010 to fiscal 2011.

General and Special Revenue Fund Budgetary Highlights

Over the course of the year, the School revised its budget. The budget amendments were performed primarily to reflect revised student enrollment and student funding throughout the year.

For the year ended June 30, 2011, actual general fund revenues were approximately \$121,000 above the budgeted amounts, primarily due to the fact that internal account revenues are not budgeted. Actual general fund expenditures were approximately \$42,000 below the budgeted amounts, which represents an approximate 2% budget variance. This was primarily due to the fact that internal account expenditures are not budgeted.

For the year ended June 30, 2011, actual special revenue fund revenues and expenditures were approximately \$29,000 below the budgeted amounts, primarily due to less federal funds expended than expected. Revenues under the federal grants are only recognized to the extent that eligible expenditures have been incurred.

CAPITAL ASSET ADMINISTRATION

At the end of fiscal 2011, the School had invested \$229,987 in capital assets, consisting primarily of computers and other electronic equipment.

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

- Macbook Pro computer – \$1,767

The School's fiscal year 2012 capital budget does not include significant spending related to capital projects. More detailed information about the School's capital assets is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following economic indicators were taken into account when adopting the general fund budget for fiscal year 2012:

- Decrease in state educational per pupil funding and student enrollment
- Elimination of federal stimulus funding for education
- Escalating cost of goods and services
- Increased cost of employee benefits

Amounts available for appropriation in the general fund are \$2,847,902, a 10% decrease from the actual 2011 amount of \$3,150,651. This decrease reflects a decline in per pupil funding by the state and the fact that contributions and other revenue are not budgeted.

Budgeted general fund expenditures are expected to decrease to \$2,840,800, or approximately 4%, from the fiscal 2011 actual figure of \$2,735,000. The School has added no major new programs to the fiscal 2012 budget and existing programs are aligned with the anticipated student enrollment.

If these estimates are realized, the School's budgetary general fund balance is expected to increase by the close of fiscal 2012.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 151 East Central Avenue, Lake Wales, Florida 33853.



Report of Independent Auditors on Basic Financial Statements and Supplementary Information

To the Board of Trustees of Lake Wales Charter Schools, Inc. –
Dale R. Fair Babson Park Elementary School, a Charter School and
Component Unit of the District School Board of Polk County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Lake Wales Charter Schools, Inc. – Dale R. Fair Babson Park Elementary School (the “School”), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2011, which collectively comprise the School’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School’s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 each major fund of Lake Wales Charter Schools, Inc. – Dale R. Fair Babson Park Elementary School as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2011 on our consideration of the School’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 – 7 and the budgetary comparison information on pages 28 – 29 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.

BKHM, P.A.

Winter Park, Florida
September 15, 2011

**LAKE WALES CHARTER SCHOOLS, INC.
DALE R. FAIR BABSON PARK ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities
ASSETS	
Accounts receivable	\$ 16,958
Due from central administrative office	689,549
Capital assets:	
Furniture, fixtures and equipment	229,987
Less accumulated depreciation	(181,534)
Total capital assets, net	48,453
Total assets	\$ 754,960
LIABILITIES	
Deferred revenue	\$ 3,842
Compensated absences payable	85,672
Total liabilities	89,514
NET ASSETS	
Invested in capital assets	48,453
Unrestricted	616,993
Total net assets	665,446
Total liabilities and net assets	\$ 754,960

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

**LAKE WALES CHARTER SCHOOLS, INC.
DALE R. FAIR BABSON PARK ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Instruction	\$ 2,092,228	\$ -	\$ 63,481	\$ -	\$ (2,028,747)	\$ (2,028,747)
Pupil personnel services	35,920	-	-	-	(35,920)	(35,920)
Instructional media	62,122	-	-	-	(62,122)	(62,122)
Instruction and curriculum development	42,313	-	-	-	(42,313)	(42,313)
Instructional staff training	2,255	-	2,255	-	-	-
Board	13,080	-	-	-	(13,080)	(13,080)
General administration	18,341	-	-	-	(18,341)	(18,341)
School administration	504,743	-	-	-	(504,743)	(504,743)
Fiscal services	271	-	271	-	-	-
Pupil transportation	87,722	-	-	-	(87,722)	(87,722)
Operation of plant	151,847	-	-	-	(151,847)	(151,847)
Maintenance of plant	500	-	-	-	(500)	(500)
Community services	44,995	-	-	-	(44,995)	(44,995)
Total primary government	<u>\$ 3,056,337</u>	<u>\$ -</u>	<u>\$ 66,007</u>	<u>\$ -</u>	<u>(2,990,330)</u>	<u>(2,990,330)</u>
General revenues:						
Federal sources passed through local school district					237,950	237,950
State and local sources					2,885,983	2,885,983
Contributions and other revenue					264,668	264,668
Total general revenues					<u>3,388,601</u>	<u>3,388,601</u>
Change in net assets					398,271	398,271
Net assets at beginning of year					267,175	267,175
Net assets at end of year					<u>\$ 665,446</u>	<u>\$ 665,446</u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
DALE R. FAIR BABSON PARK ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Accounts receivable	\$ 1,598	\$ 15,360	\$ 16,958
Due from central administrative office	<u>701,067</u>	<u>-</u>	<u>701,067</u>
Total assets	<u><u>\$ 702,665</u></u>	<u><u>\$ 15,360</u></u>	<u><u>\$ 718,025</u></u>
LIABILITIES AND FUND BALANCES			
Deferred revenue	\$ -	\$ 3,842	\$ 3,842
Due to central administrative office	<u>-</u>	<u>11,518</u>	<u>11,518</u>
Total liabilities	<u>-</u>	<u>15,360</u>	<u>15,360</u>
Fund balances:			
Committed to:			
Performance/merit pay supplement program	9,415	-	9,415
Assigned to:			
School-based student activity organizations	24,390	-	24,390
Unassigned	<u>668,860</u>	<u>-</u>	<u>668,860</u>
Total fund balances	<u>702,665</u>	<u>-</u>	<u>702,665</u>
Total liabilities and fund balances	<u><u>\$ 702,665</u></u>	<u><u>\$ 15,360</u></u>	<u><u>\$ 718,025</u></u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
DALE R. FAIR BABSON PARK ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
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**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2011

Total fund balances - governmental funds	\$ 702,665
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$229,987, and the accumulated depreciation is \$181,534.	48,453
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Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(85,672)</u>
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Total net assets - governmental activities	<u><u>\$ 665,446</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

**LAKE WALES CHARTER SCHOOLS, INC.
DALE R. FAIR BABSON PARK ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Federal sources passed through local school district	\$ -	\$ 303,957	\$ 303,957
State and local sources	2,885,983	-	2,885,983
Contributions and other revenue	264,668	-	264,668
Total revenues	3,150,651	303,957	3,454,608
EXPENDITURES			
Current:			
Instruction	1,854,087	231,541	2,085,628
Pupil personnel services	26,476	8,656	35,132
Instructional media	5,061	56,599	61,660
Instruction and curriculum development	37,678	4,635	42,313
Instructional staff training	-	2,255	2,255
Board	13,080	-	13,080
General administration	18,341	-	18,341
School administration	498,073	-	498,073
Fiscal services	-	271	271
Pupil transportation	87,722	-	87,722
Operation of plant	147,720	-	147,720
Community services	44,995	-	44,995
Capital outlay	1,767	-	1,767
Total expenditures	2,735,000	303,957	3,038,957
Net changes in fund balances	415,651	-	415,651
Fund balances at beginning of year	287,014	-	287,014
Fund balances at end of year	\$ 702,665	\$ -	\$ 702,665

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

**LAKE WALES CHARTER SCHOOLS, INC.
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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2011

Net changes in fund balances - total governmental funds	\$ 415,651
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$13,031) exceeds capital outlays (\$1,767) in the current period.	(11,264)
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Compensated absences included in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	<u>(6,116)</u>
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Change in net assets of governmental activities	<u><u>\$ 398,271</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

**LAKE WALES CHARTER SCHOOLS, INC.
DALE R. FAIR BABSON PARK ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lake Wales Charter Schools, Inc. (the "Company") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes. Dale R. Fair Babson Park Elementary School (the "School") operates as part of the Company with five other charter schools in the Lake Wales, Florida area. The governing body of the School is the not-for-profit corporation Board of Trustees, which is composed of no less than three and no more than nine members. Effective July 1, 2004, the School converted from a traditional public school to a public charter school.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Polk County, Florida (the "School Board"). The current charter is effective until June 30, 2013 and may be renewed by mutual written agreement between the School and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter. In this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the School Board. The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board ("GASB") accounting guidance; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

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

**LAKE WALES CHARTER SCHOOLS, INC.
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A CHARTER SCHOOL AND COMPONENT UNIT OF
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

Recently adopted accounting pronouncements

During fiscal year 2011, the School adopted guidance issued by the GASB that established fund balance classifications that comprise a hierarchy based primarily on the extent to which an entity is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This guidance improves the usefulness of fund balance information by clarifying the definitions of existing governmental fund types and providing additional classifications of fund balance.

Basis of presentation

The School's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB. Accordingly, both government-wide and fund financial statements are presented.

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide financial statements of the School are generally divided into three categories:

- Governmental activities – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- Business-type activities – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- Component units – there currently are no component units included within the reporting entity of the School.

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund balance, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

**LAKE WALES CHARTER SCHOOLS, INC.
DALE R. FAIR BABSON PARK ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

The funds in the financial statements of this report are as follows:

Governmental Funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund.
- Special Revenue Fund – to account for the proceeds of specific revenue sources and federal grants that are restricted by law or administrative action to expenditure for specific purposes.

For purposes of these statements, the general and special revenue funds constitute major funds. There are no other governmental funds.

Basis of accounting

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented using the accrual basis of accounting and an economic resources focus. Under the accrual basis of accounting, revenues and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within sixty days of the end of the fiscal year. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) interest on general long-term debt is recognized when due and (2) expenditures related to liabilities reported as general long-term debt are recognized when due.

Budgetary basis accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries, purchased services and capital outlay).

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**NOTES TO FINANCIAL STATEMENTS
(continued)**

Deposits and investments

During the year ended June 30, 2011, the Company maintained cash deposits on a pooled basis for all of its charter schools. Cash deposits are held by banks qualified as public depositories under Florida law. All deposits held by qualified public depositories are insured by federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool under Chapter 280, Florida Statutes. The Company's cash consists primarily of demand deposits with financial institutions.

Capital assets and depreciation

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation, in the government-wide financial statements. Donated assets are recorded at fair value at the date of donation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Furniture, fixtures and equipment	3

Information relative to changes in capital assets is described in Note 3.

Compensated absences

Compensated absences (i.e. paid absences for employee vacation leave and sick leave) are recorded as an expenditure in the governmental funds when leave is used or when accrued as payable to employees entitled to cash payment in lieu of taking leave. In the government-wide financial statements, compensated absences are recorded as an expense when earned by the employees. The liability for compensated absences is classified as current in the government-wide financial statements because the amount of vacation and sick time to be used after the following year cannot be reasonably estimated.

**LAKE WALES CHARTER SCHOOLS, INC.
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

Revenue sources

Revenues for current operations are received primarily from the District School Board of Polk County, Florida pursuant to the funding provisions included in the School's charter. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the Florida Department of Education ("FDOE") by the state legislature. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent students and related data to the School Board.

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the FDOE for funding through the FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. The School Board receives a 5% administrative fee from the Lake Wales Charter Schools system, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds. This administrative fee is calculated on the FEFP revenue up to 500 students within the system. The difference between the actual fee and the fee as calculated on total FEFP revenue is restricted for instructional and administrative purposes, as well as for capital outlay expenditures.

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

Income taxes

The Company is an organization exempt from income taxation under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for federal income taxes is included in the accompanying financial statements.

The Company has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

**LAKE WALES CHARTER SCHOOLS, INC.
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

The Company assesses its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the Company believes it is “more likely than not” that its tax positions will be sustained upon an examination by the Internal Revenue Service (“IRS”) or the applicable state taxing authority. Accordingly, there is no provision for federal income taxes in the School’s financial statements, as the Company believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS audit. State income taxes, which may be due in certain jurisdictions, have been assessed following the same “more likely than not” measurement threshold. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2007.

Fund balance spending policy

The School’s adopted spending policy is to spend from restricted fund balance first, followed by committed, assigned, then the unassigned fund balance. The Board of Trustees reviews the amounts in the fund balances in conjunction with the annual budget approval and makes adjustments as necessary to meet expected cash flow needs. Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. If expenditures are incurred that meet the purpose of more than one fund, they will be allocated to restricted fund balance first and then follow the order above. Funds can only be committed by formal action of the Board of Trustees. The Board of Trustees has delegated authority to assign funds to the Superintendent and Chief Financial Officer of the Company.

The School is required by the School Board to maintain an unassigned general fund balance equal to at least 2.5% of general fund revenues. The Company has an internal fund balance policy to maintain an unassigned general fund balance equal to not less than 10% of budgeted general fund revenues as of June 30th of each year for the Lake Wales Charter Schools system as a whole. In addition, the Company’s internal fund balance policy requires that each charter school maintain an unassigned general fund balance equal to a minimum of 5% of budgeted general fund revenues - 2.5% to meet the School Board’s requirement and 2.5% to provide for sufficient cash flow for fiscal stability. There are no minimum fund balance requirements for any of the School’s other funds.

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and affect revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

**LAKE WALES CHARTER SCHOOLS, INC.
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

Subsequent events

The School has adopted guidance that requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The School has evaluated subsequent events through September 15, 2011, which is the date the financial statements were available to be issued.

2 ACCOUNTS RECEIVABLE

Accounts receivable included in the accompanying financial statements include \$16,958 in funds receivable from the School Board, which are detailed as follows:

Special Education-Grants to States (IDEA, Part B)	\$	15,360	
Other		1,598	
Total	\$	16,958	

Based on collectibility of funds from this source, an allowance for doubtful accounts is not considered necessary.

3 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Furniture, fixtures and equipment	\$ 228,220	\$ 1,767	\$ -	\$ 229,987
Less accumulated depreciation for:				
Furniture, fixtures and equipment	(168,503)	(13,031)	-	(181,534)
Governmental activities capital assets, net	\$ 59,717	\$ (11,264)	\$ -	\$ 48,453

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**NOTES TO FINANCIAL STATEMENTS
(continued)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 4,743
Pupil personnel services	500
School administration	3,291
Operation of plant	3,997
Maintenance of plant	<u>500</u>
Total governmental activities depreciation expense	<u><u>\$ 13,031</u></u>

4 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

The following is a schedule of state and local revenue sources and amounts:

District School Board of Polk County, Florida:	
Florida Education Finance Program	\$ 1,718,386
Class size reduction	573,224
Discretionary millage funds	131,422
Supplemental academic instruction	109,897
Discretionary tax equalization funds	108,683
Transportation	86,620
ESE guaranteed allocation	69,111
Instructional materials	35,884
School recognition	33,529
Safe schools	9,813
Teacher lead pay	5,774
Excellent teacher program	1,967
Discretionary lottery funds	<u>1,673</u>
Total	<u><u>\$ 2,885,983</u></u>

The administration fee paid to the School Board during the year ended June 30, 2011 totaled approximately \$18,000 which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

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**NOTES TO FINANCIAL STATEMENTS
(continued)**

5 RELATED PARTY TRANSACTIONS

As previously noted, the Company maintained cash deposits on a pooled basis for all of its charter schools during the fiscal year ended June 30, 2011. The amount due from the central administrative office in the accompanying financial statements represents the School's share of the pooled cash balance. The net balance of \$689,549 primarily includes amounts advanced by the School to the Company for operating costs. The balance is also net of payroll liabilities (taxes, insurance, retirement, etc.) to be paid by the Company on behalf of the School. Due to centralized cash management and the timing of the payroll accrual near year-end, the amount due from the central administrative office represents a significant portion of total assets as of June 30, 2011.

In addition, the Company provides certain management and administrative services to the School. Expenses for these services are allocated to each charter school operated by the Company based on the relative number of students. For the year ended June 30, 2011, the School's share of these expenses totaled \$104,346, which is reflected as a school administration expense/expenditure in the accompanying financial statements.

The Company also provides transportation services for the School in exchange for the transportation revenue generated by the School based on its full-time equivalent student count. Amounts paid to the Company for transportation services during fiscal 2011 totaled approximately \$88,000.

During fiscal 2011, the Company operated and managed all of its charter schools as one collective unit, although each charter school is considered a separate reporting entity. As one legal entity, the Company has the option to transfer funds between schools as it deems necessary. The following schedule reflects the unassigned general fund balance of each school as of June 30, 2011:

Dale R. Fair Babson Park Elementary School	\$	668,860
Edward W. Bok Academy		162,898
Hillcrest Elementary School		1,067,675
Janie Howard Wilson Elementary School		774,311
Lake Wales High School		1,348,417
Polk Avenue Elementary School		583,639
Total	\$	4,605,800

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**NOTES TO FINANCIAL STATEMENTS
(continued)**

6 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage.

7 COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of June 30, 2011 may be impaired.

In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Legal matters

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

Contingencies

During fiscal 2008, the Company obtained a loan from a financial institution in order to purchase property for the location of its new middle school. In addition to a mortgage on the property acquired, the furniture, fixtures and equipment of the School also serve as collateral for the loan.

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**NOTES TO FINANCIAL STATEMENTS
(continued)**

8 RETIREMENT PROGRAM

Defined benefit plan

All regular employees of the School are covered by the Florida Retirement System (“FRS”). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (“Plan”). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of the FRS. Benefits in the Plan vest at six years of service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability and death benefits and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (“DROP”) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust and accrue interest. The School had six DROP participants during fiscal 2011.

Funding policy

The contribution rates for members are established, and may be amended, by the State of Florida. During the 2011 fiscal year, contribution rates were as follows:

<u>Class or Plan</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (A)</u>
Florida Retirement System, Regular	0%	10.77%
Florida Retirement System, Reemployed Retiree	(B)	(B)

- (A) Employer rates include 1.11% for the post-employment health insurance supplement and 0.03% for administrative costs of the Public Employee Optional Retirement Program.
- (B) Contribution rates are dependent upon the retirement class in which reemployed.

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**NOTES TO FINANCIAL STATEMENTS
(continued)**

The School's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the School. The School's contribution to the Plan for the year ended June 30, 2011 totaled approximately \$195,378, which was based on the required contributions for the fiscal year. Effective July 1, 2011, employees will be required to contribute 3% to the Plan, and the employer contribution will be reduced accordingly.

Defined contribution plan

Effective July 1, 2002, the Public Employee Optional Retirement Program ("PEORP") was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (i.e.: regular class, reemployed retiree, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. The School had seven PEORP participants during fiscal 2011.

Pension reporting

The financial statements and other supplemental information of the FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained by contacting the Florida Department of Financial Services in Tallahassee, Florida. Also, an annual report on the FRS, which includes its financial statements, required supplemental information, actuarial report and other relevant information, may be obtained from the State of Florida, Division of Retirement in Tallahassee, Florida.

9 CAMPUS FACILITY

Title to the school building and facilities and other capital assets acquired prior to July 1, 2004 remains with the School Board. Florida Statutes provide that the use of the school building and facilities be furnished to charter schools on the same basis as made available to other public schools in the district. No rental or leasing fee may be charged by the district school board to the charter school or to the parents and teachers who organize the charter school.

In management's opinion, the value of facilities utilized by the School is significant; therefore, any substantial changes in Florida Statutes related to facilities use by conversion charter schools could have a material effect on the School's operations.

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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget- Positive (Negative)
REVENUES				
State and local sources	\$ 2,962,518	\$ 2,853,309	\$ 2,885,983	\$ 32,674
Contributions and other revenue	6,943	175,931	264,668	88,737
Total revenues	<u>2,969,461</u>	<u>3,029,240</u>	<u>3,150,651</u>	<u>121,411</u>
EXPENDITURES				
Current:				
Instruction	2,052,787	1,897,006	1,854,087	42,919
Pupil personnel services	28,107	27,814	26,476	1,338
Instructional media	5,000	7,803	5,061	2,742
Instruction and curriculum development	43,894	38,269	37,678	591
Board	15,000	15,000	13,080	1,920
General administration	14,000	19,000	18,341	659
School administration	445,468	416,689	498,073	(81,384)
Pupil transportation	85,000	95,000	87,722	7,278
Operation of plant	188,932	198,012	147,720	50,292
Community services	62,360	62,360	44,995	17,365
Capital outlay	-	-	1,767	(1,767)
Total expenditures	<u>2,940,548</u>	<u>2,776,953</u>	<u>2,735,000</u>	<u>41,953</u>
Net change in fund balance	28,913	252,287	415,651	163,364
Fund balance at beginning of year	<u>287,014</u>	<u>287,014</u>	<u>287,014</u>	<u>-</u>
Fund balance at end of year	<u>\$ 315,927</u>	<u>\$ 539,301</u>	<u>\$ 702,665</u>	<u>\$ 163,364</u>

See report of independent auditors.

**LAKE WALES CHARTER SCHOOLS, INC.
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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget- Positive (Negative)
REVENUES				
Federal sources passed through local school district	\$ 209,429	\$ 333,162	\$ 303,957	\$ (29,205)
Total revenues	209,429	333,162	303,957	(29,205)
EXPENDITURES				
Current:				
Instruction	143,662	262,471	231,541	30,930
Pupil personnel services	8,847	8,847	8,656	191
Instructional media	56,920	57,169	56,599	570
Instruction and curriculum development	-	4,675	4,635	40
Instructional staff training	-	-	2,255	(2,255)
Fiscal services	-	-	271	(271)
Total expenditures	209,429	333,162	303,957	29,205
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.



**Report of Independent Auditors 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 Trustees of Lake Wales Charter Schools, Inc. –
Dale R. Fair Babson Park Elementary School, a Charter School and
Component Unit of the District School Board of Polk County, Florida

We have audited the financial statements of the governmental activities and each major fund of Lake Wales Charter Schools, Inc. – Dale R. Fair Babson Park Elementary School (the “School”), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2011, which collectively comprise the School’s basic financial statements and have issued our report thereon dated September 15, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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*.

This report is intended solely for the information and use of management of the School, the Board of Trustees, the District School Board of Polk County, Florida, the Florida Department of Education and the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
September 15, 2011

**ADDITIONAL INFORMATION REQUIRED BY
RULES OF THE AUDITOR GENERAL,
CHAPTER 10.850, *AUDITS OF CHARTER SCHOOLS
AND SIMILAR ENTITIES***



To the Board of Trustees of Lake Wales Charter Schools, Inc. –
Dale R. Fair Babson Park Elementary School, a Charter School and
Component Unit of the District School Board of Polk County, Florida

We have audited the financial statements of the governmental activities and each major fund of Lake Wales Charter Schools, Inc. – Dale R. Fair Babson Park Elementary School (the “School”), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 15, 2011.

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. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated September 15, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports:

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings and recommendations in the preceding annual financial audit report.
- 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 violations of 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 more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.



- Section 10.854(1)(e)6., Rules of the Auditor General, requires the name or official title of the school. The official title of the School is Lake Wales Charter Schools, Inc. – Dale R. Fair Babson Park Elementary School.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included 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 met. During the course of our audit, nothing came to our attention to indicate that the School had met any of the conditions described in Section 218.503(1), Florida Statutes (“the conditions”). However, in planning and performing our audit, we considered whether the School had met any of the conditions as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion as to whether the School had met any of the conditions. Accordingly, we do not express an opinion as to whether the School had met any of the conditions.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures as of June 30, 2011, which included calculation and analysis of certain financial indicators we considered relevant to the School. Our financial condition assessment procedures did not include the use of benchmarks. 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 management.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, the Board of Trustees and the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
September 15, 2011