



**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST 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



CONTENTS

	<u>Page</u>
Management's Discussion and Analysis	1 – 7
Report of Independent Auditors on Basic Financial Statements and Supplementary Information	8 – 9
Basic Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16 – 27
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	28
Budgetary Comparison Schedule – Special Revenue Fund	29
Schedule of Expenditures of Federal Awards	30
Note to Schedule of Expenditures of Federal Awards	31
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 <i>Government Auditing Standards</i>	32 – 33
Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	34 – 35
Schedule of Findings and Questioned Costs	36 – 37
Additional Information Required by Rules of the Auditor General, Chapter 10.850, <i>Audits of Charter Schools and Similar Entities</i>:	
Management Letter	38 – 40

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Hillcrest 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 \$351,244. This represents a decline from the prior year when revenues exceeded expenses by \$385,633.
- Overall, revenues increased by approximately \$285,000, which represents a 6% increase from the prior year.
- Overall, expenses increased by approximately \$319,000, which represents a 7% 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 following information required by the U.S. Office of Management and Budget (“OMB”) Circular A-133: schedule of expenditures of federal awards, independent auditor’s report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133 and the schedule of findings and questioned costs. In addition, it 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	\$ 855,041	\$1,133,838	33%
Capital assets, net	139,212	218,436	57%
Total assets	994,253	1,352,274	36%
Current and other liabilities	111,615	118,392	6%
Total liabilities	111,615	118,392	6%
Net assets:			
Invested in capital assets	139,212	218,436	57%
Unrestricted	743,426	1,015,446	37%
Total net assets	<u>\$ 882,638</u>	<u>\$1,233,882</u>	<u>40%</u>

Current and other assets increased due to a rise in the amount due from the central administrative office. Since the Company maintained 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 increased due to capital asset purchases in excess of depreciation expense. Current and other liabilities increased as a result of an increase in compensated absences payable offset by a reduction in accounts payable. The increase in 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 increased by 6% to \$5,129,770, and the total cost of all programs and services increased by 7% to \$4,778,526 – see table below.

	Governmental Activities		Increase (Decrease)
	2010	2011	
Revenues:			
Federal sources passed through local school district	\$ 606,805	\$ 791,300	30%
State and local sources	4,024,630	4,083,208	1%
Contributions and other revenue	213,513	255,262	20%
Total revenues	4,844,948	5,129,770	6%
Expenses:			
Instruction	2,950,465	3,356,226	14%
Pupil personnel services	56,837	54,752	-4%
Instructional media	91,966	97,686	6%
Instruction and curriculum development	126,379	254,999	102%
Instructional staff training	75,900	53,354	-30%
Board	15,100	16,560	10%
General administration	164,655	26,379	-84%
School administration	500,333	588,125	18%
Fiscal services	1,700	273	-84%
Pupil transportation	81,032	77,238	-5%
Operation of plant	251,421	252,934	1%
Community services	143,527	-	-100%
Total expenses	4,459,315	4,778,526	7%
Change in net assets	\$ 385,633	\$ 351,244	-9%

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 80% of total revenues. A slight increase in the School's student enrollment offset the decrease in FEFP funding categories and local school taxes received in 2011 resulting in the revenue increase at the state and local level. The increase in contributions and other revenue is the result of increased revenue for the School's early childhood programs, including pre-kindergarten and kindergarten support.

Total instruction and instruction-related services increased by approximately 16% during fiscal 2011 as a result of the increased personnel in federal Title I and one-time staff on special assignment. School administration expenses increased in 2011 due to a higher Company management fee and increased internal account activity recorded in this function. The School utilized the Company transportation system in 2011. Community services expenses decreased

with the elimination of a one-time contribution made to Dale R. Fair Babson Park Elementary School completing the Company's plan to eliminate a fund deficit at this school.

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 \$1,132,314, which was above the prior year. Both revenues and expenditures increased overall for the same reasons described above.

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 \$166,000 above the budgeted amounts, primarily due to the fact that internal account revenues are not budgeted. Actual general fund expenditures were approximately \$152,000 above the budgeted amounts, which represents an approximate 4% budget variance. This variance was primarily the result of the School's expenditure for one-time media center improvements and internal account expenditures which are not budgeted.

For the year ended June 30, 2011, actual special revenue fund revenues and expenditures were approximately \$9,000 above the budgeted amounts, primarily due to more 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 \$453,742 in capital assets, consisting primarily of computers and other electronic equipment.

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

- Media shelving – \$63,049
- Computers and related equipment – \$41,725
- Playground equipment – \$18,357
- Security system – \$11,653

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 \$3,899,071, a 10% decrease from the actual 2011 amount of \$4,338,470. This decrease is primarily due to a small decline in budgeted student enrollment and the fact that contributions and other revenue are not budgeted.

Budgeted general fund expenditures are expected to decrease to \$3,899,071, or approximately 4%, from the fiscal 2011 actual figure of \$4,054,305. The School has added no major new programs to the fiscal 2012 budget.

If these estimates are realized, the School's general fund balance is expected to remain unchanged 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. –
Hillcrest 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. – Hillcrest 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. – Hillcrest 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 30 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

BKHM, P.A.

Winter Park, Florida
September 15, 2011

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

STATEMENT OF NET ASSETS

JUNE 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Accounts receivable	\$ 136,225
Due from central administrative office	997,613
Capital assets:	
Furniture, fixtures and equipment	453,742
Less accumulated depreciation	<u>(235,306)</u>
Total capital assets, net	<u>218,436</u>
Total assets	<u><u>\$ 1,352,274</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 1,524
Compensated absences payable	<u>116,868</u>
Total liabilities	<u>118,392</u>
NET ASSETS	
Invested in capital assets	218,436
Unrestricted	<u>1,015,446</u>
Total net assets	<u>1,233,882</u>
Total liabilities and net assets	<u><u>\$ 1,352,274</u></u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST 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	\$ 3,356,226	\$ -	\$ 398,864	\$ -	\$ (2,957,362)	\$ (2,957,362)
Pupil personnel services	54,752	-	-	-	(54,752)	(54,752)
Instructional media	97,686	-	-	-	(97,686)	(97,686)
Instruction and curriculum development	254,999	-	48,797	-	(206,202)	(206,202)
Instructional staff training	53,354	-	1,129	-	(52,225)	(52,225)
Board	16,560	-	-	-	(16,560)	(16,560)
General administration	26,379	-	-	-	(26,379)	(26,379)
School administration	588,125	-	-	-	(588,125)	(588,125)
Fiscal services	273	-	273	-	-	-
Pupil transportation	77,238	-	-	-	(77,238)	(77,238)
Operation of plant	252,934	-	-	-	(252,934)	(252,934)
Total primary government	<u>\$ 4,778,526</u>	<u>\$ -</u>	<u>\$ 449,063</u>	<u>\$ -</u>	<u>(4,329,463)</u>	<u>(4,329,463)</u>
General revenues:						
Federal sources passed through local school district					342,237	342,237
State and local sources					4,083,208	4,083,208
Contributions and other revenue					255,262	255,262
Total general revenues					<u>4,680,707</u>	<u>4,680,707</u>
Change in net assets					351,244	351,244
Net assets at beginning of year					882,638	882,638
Net assets at end of year					<u>\$ 1,233,882</u>	<u>\$ 1,233,882</u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST 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	\$ 19,653	\$ 116,572	\$ 136,225
Due from central administrative office	<u>1,114,185</u>	<u>-</u>	<u>1,114,185</u>
Total assets	<u><u>\$ 1,133,838</u></u>	<u><u>\$ 116,572</u></u>	<u><u>\$ 1,250,410</u></u>
LIABILITIES AND FUND BALANCES			
Accounts payable and accrued expenditures	\$ 1,524	\$ -	\$ 1,524
Due to central administrative office	<u>-</u>	<u>116,572</u>	<u>116,572</u>
Total liabilities	<u>1,524</u>	<u>116,572</u>	<u>118,096</u>
Fund balances:			
Committed to:			
Performance/merit pay supplement program	12,535	-	12,535
Assigned to:			
School-based student activity organizations	52,104	-	52,104
Unassigned	<u>1,067,675</u>	<u>-</u>	<u>1,067,675</u>
Total fund balances	<u>1,132,314</u>	<u>-</u>	<u>1,132,314</u>
Total liabilities and fund balances	<u><u>\$ 1,133,838</u></u>	<u><u>\$ 116,572</u></u>	<u><u>\$ 1,250,410</u></u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2011

Total fund balances - governmental funds \$ 1,132,314

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 \$453,742,
and the accumulated depreciation is \$235,306. 218,436

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. (116,868)

Total net assets - governmental activities \$ 1,233,882

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

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST 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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Federal sources passed through local school district	\$ -	\$ 791,300	\$ 791,300
State and local sources	4,083,208	-	4,083,208
Contributions and other revenue	<u>255,262</u>	<u>-</u>	<u>255,262</u>
Total revenues	<u>4,338,470</u>	<u>791,300</u>	<u>5,129,770</u>
EXPENDITURES			
Current:			
Instruction	2,754,151	544,868	3,299,019
Pupil personnel services	52,371	-	52,371
Instructional media	22,313	75,132	97,445
Instruction and curriculum development	81,153	169,898	251,051
Instructional staff training	52,378	1,129	53,507
Board	16,560	-	16,560
General administration	26,379	-	26,379
School administration	584,792	-	584,792
Fiscal services	-	273	273
Pupil transportation	77,238	-	77,238
Operation of plant	252,186	-	252,186
Capital outlay	<u>134,784</u>	<u>-</u>	<u>134,784</u>
Total expenditures	<u>4,054,305</u>	<u>791,300</u>	<u>4,845,605</u>
Net changes in fund balances	284,165	-	284,165
Fund balances at beginning of year	<u>848,149</u>	<u>-</u>	<u>848,149</u>
Fund balances at end of year	<u><u>\$ 1,132,314</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,132,314</u></u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2011

Net changes in fund balances - total governmental funds	\$ 284,165
--	-------------------

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 capital outlays (\$134,784) exceed depreciation expense (\$55,560) in the current period.	79,224
---	--------

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>(12,145)</u>
--	-----------------

Change in net assets of governmental activities	<u><u>\$ 351,244</u></u>
--	---------------------------------

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

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 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. Hillcrest 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.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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).

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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 \$136,225 in funds receivable from the School Board, which are detailed as follows:

Title I Grants to Local Educational Agencies	\$	67,075
Special Education-Grants to States (IDEA, Part B)		49,497
Voluntary pre-kindergarten program		19,222
Other		431
Total		\$ 136,225

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	\$ 318,958	\$ 134,784	\$ -	\$ 453,742
Less accumulated depreciation for:				
Furniture, fixtures and equipment	(179,746)	(55,560)	-	(235,306)
Governmental activities capital assets, net	\$ 139,212	\$ 79,224	\$ -	\$ 218,436

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 51,671
Pupil personnel services	250
Instruction and curriculum development services	2,514
School administration	<u>1,125</u>
Total governmental activities depreciation expense	<u><u>\$ 55,560</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	\$ 2,443,672
Class size reduction	810,447
Discretionary millage funds	186,906
Supplemental academic instruction	155,247
Discretionary tax equalization funds	153,530
ESE guaranteed allocation	107,978
Transportation	85,923
Instructional materials	50,692
School recognition	47,513
Excellent teacher program	17,700
Safe schools	13,956
Teacher lead pay	7,264
Discretionary lottery funds	<u>2,380</u>
Total	<u><u>\$ 4,083,208</u></u>

The administration fee paid to the School Board during the year ended June 30, 2011 totaled approximately \$26,000 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.

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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 \$997,613 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 \$153,508, 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 \$77,000.

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	<u>583,639</u>
Total	<u><u>\$ 4,605,800</u></u>

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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.

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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 three 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.

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**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 \$283,893, 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 thirteen 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.

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
State and local sources	\$ 3,797,761	\$ 4,032,076	\$ 4,083,208	\$ 51,132
Contributions and other revenue	-	140,032	255,262	115,230
Total revenues	<u>3,797,761</u>	<u>4,172,108</u>	<u>4,338,470</u>	<u>166,362</u>
EXPENDITURES				
Current:				
Instruction	2,662,250	2,795,348	2,754,151	41,197
Pupil personnel services	69,842	49,301	52,371	(3,070)
Instructional media	74,678	15,500	22,313	(6,813)
Instruction and curriculum development	12,761	80,835	81,153	(318)
Instructional staff training	49,060	53,576	52,378	1,198
Board	17,500	17,500	16,560	940
General administration	23,000	23,000	26,379	(3,379)
School administration	540,642	495,655	584,792	(89,137)
Pupil transportation	92,000	92,000	77,238	14,762
Operation of plant	256,028	279,627	252,186	27,441
Capital outlay	-	-	134,784	(134,784)
Total expenditures	<u>3,797,761</u>	<u>3,902,342</u>	<u>4,054,305</u>	<u>(151,963)</u>
Net change in fund balance	-	269,766	284,165	14,399
Fund balance at beginning of year	<u>848,149</u>	<u>848,149</u>	<u>848,149</u>	-
Fund balance at end of year	<u>\$ 848,149</u>	<u>\$ 1,117,915</u>	<u>\$ 1,132,314</u>	<u>\$ 14,399</u>

See report of independent auditors.

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Federal sources passed through local school district	\$ 565,311	\$ 782,042	\$ 791,300	\$ 9,258
Total revenues	<u>565,311</u>	<u>782,042</u>	<u>791,300</u>	<u>9,258</u>
EXPENDITURES				
Current:				
Instruction	371,984	537,073	544,868	(7,795)
Instructional media	77,119	75,172	75,132	40
Instruction and curriculum development	116,208	169,797	169,898	(101)
Instructional staff training	-	-	1,129	(1,129)
Fiscal services	-	-	273	(273)
Total expenditures	<u>565,311</u>	<u>782,042</u>	<u>791,300</u>	<u>(9,258)</u>
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Grant Period	Expenditures
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - State Fiscal Stabilization Fund - Education State Grants	84.394	7/1/2010 - 6/30/2011	\$ 202,458
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - State Fiscal Stabilization Fund - Government Services	84.397	7/1/2010 - 6/30/2011	<u>4,042</u>
Total State Fiscal Stabilization Fund Program Cluster			<u>206,500</u>
United States Department of Education / Florida Department of Education / Polk County School District / Title I Grants to Local Educational Agencies	84.010	7/1/2010 - 6/30/2011	255,415
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - Title I Grants to Local Educational Agencies	84.389	7/1/2010 - 6/30/2011	<u>52,931</u>
Total Title I, Part A Program Cluster			<u>308,346</u>
United States Department of Education / Florida Department of Education / Polk County School District / Special Education - Grants to States (IDEA, Part B)	84.027	7/1/2010 - 6/30/2011	92,796
United States Department of Education / Florida Department of Education / Polk County School District / ARRA - Special Education - Grants to States (IDEA, Part B)	84.391	7/1/2010 - 6/30/2011	<u>46,260</u>
Total IDEA, Part B Program Cluster			<u>139,056</u>
United States Department of Education / Florida Department of Education / Polk County School District / Education Jobs Fund	84.410	7/1/2010 - 6/30/2011	135,738
United States Department of Education / Florida Department of Education / Polk County School District / Improving Teacher Quality State Grants (Title II)	84.367	7/1/2010 - 6/30/2011	<u>1,660</u>
Total Expenditures of Federal Awards			<u>\$ 791,300</u>

See accompanying note to schedule of expenditures of federal awards.

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



**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. –
Hillcrest 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. – Hillcrest 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



Report of Independent Auditors on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees of Lake Wales Charter Schools, Inc. –
Hillcrest Elementary School, a Charter School and Component Unit
of the District School Board of Polk County, Florida

Compliance

We have audited the compliance of Lake Wales Charter Schools, Inc. – Hillcrest Elementary School (the “School”), a charter school and component unit of the District School Board of Polk County, Florida, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The School’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School’s management. Our responsibility is to express an opinion on the School’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School’s compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.



Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Grant Period</u>	<u>Name of Federal Program</u>
84.394	7/1/2010 – 6/30/2011	ARRA – State Fiscal Stabilization Fund – Education State Grants
84.397	7/1/2010 – 6/30/2011	ARRA – State Fiscal Stabilization Fund – Government Services
84.010	7/1/2010 – 6/30/2011	Title I Grants to Local Educational Agencies
84.389	7/1/2010 – 6/30/2011	ARRA – Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
--	-----------

Auditee qualified as a low-risk auditee?	No
--	----

**LAKE WALES CHARTER SCHOOLS, INC.
HILLCREST ELEMENTARY SCHOOL
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)**

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Year Audit Findings

There were no prior year audit findings.

**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. –
Hillcrest 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. – Hillcrest 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are 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 or schedule:

- 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. – Hillcrest 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