



**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

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

JUNE 30, 2010



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 (Deficit) – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16 – 28
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	29

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Lake Wales Charter Schools, Inc. – Central Administrative Office (the “Company”) presents management’s discussion and analysis of the Company’s financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the Company’s financial statements, which follow this section.

Lake Wales Charter Schools, Inc. operates a system of six public charter schools in the Lake Wales, Florida area (Dale R. Fair Babson Park Elementary School, Edward W. Bok Academy, Hillcrest Elementary School, Janie Howard Wilson Elementary School, Lake Wales High School and Polk Avenue Elementary School). The Company provides certain management and administrative services to the charter schools. Even though there is only one corporate entity, each of the six public charter schools and the Company function as if they were separate entities.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2010, the Company’s revenues exceeded expenses by \$506,294.
- Total assets were \$9,415,819, and total liabilities were \$9,390,141, resulting in net assets of \$25,678.
- Overall, revenues increased by approximately \$930,000, which represents a 63% increase from the prior year.
- Overall, expenses decreased by approximately \$262,000, which represents a 12% decrease 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 Company:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Company’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Company, reporting the Company’s operations in more detail than the government-wide statements.
 - The *governmental funds* financial statements tell how general 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.

The following table summarizes the major features of the Company's financial statements, including the portion of the Company 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 Company	The activities of the Company 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 Company as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Company'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 Company's net assets and how they have changed. Net assets – the difference between the Company's assets and liabilities – is one way to measure the Company's financial health or position. Over time, increases or decreases in the Company's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Company, one needs to consider additional non-financial factors such as changes in the student base of the charter schools, the quality of the education provided and the safety of the schools.

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

- *Governmental activities* – most of the Company's basic services are included here, such as general administration. Funds received through the administrative fee charged to the charter schools and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the Company may charge fees to help it cover the costs of certain services it provides. The Company currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the Company.

Fund Financial Statements

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

The Company currently has one type of fund:

- *Governmental funds* – most of the Company'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 Company'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 COMPANY AS A WHOLE

Net Assets

The Company's combined net assets as of June 30, 2010 and 2009 are summarized as follows – see table below.

	Governmental Activities		Increase (Decrease)
	2009	2010	
Current and other assets	\$ 4,060,972	\$ 4,871,491	20%
Capital assets, net	4,577,900	4,544,328	-1%
Total assets	8,638,872	9,415,819	9%
Current and other liabilities	4,216,553	4,936,178	17%
Long-term liabilities	4,902,935	4,453,963	-9%
Total liabilities	9,119,488	9,390,141	3%
Net assets:			
Invested in capital assets, net of related debt	(105,148)	301,090	386%
Unrestricted	(375,468)	(275,412)	27%
Total net assets	\$ (480,616)	\$ 25,678	105%

The increase in current and other assets was due primarily to cash and cash equivalent activity. Since the Company maintained cash deposits on a pooled basis for all of its charter schools, the cash balance increased as a result of an overall operating surplus generated by the charter schools. Net capital assets decreased as a result of current period depreciation expense in excess of capital asset additions. Current and other liabilities increased as a result of an increase in the amount due to the charter schools, which represents the charter schools' share of the Company's pooled cash balance held on behalf of the charter schools for their operations. Much of the balance is for payroll and related expenses for the charter schools that were paid in July 2010. Long-term liabilities decreased as a result of the retirement of the outstanding note payable to a not-for-profit corporation as presented in Note 4 to the financial statements. The increase in net assets from the prior fiscal year is due to the current year operating surplus and the balance of capital assets and non-current assets offset by long-term liabilities.

Change in Net Assets

The Company's total revenues increased by 63% to \$2,400,557, and the total cost of all programs and services decreased by 12% to \$1,894,263 – see table below.

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2009</u>	<u>2010</u>	<u>(Decrease)</u>
Revenues:			
State and local sources	\$ -	\$ 500,000	100%
Contributions and other revenue	1,470,866	1,900,557	29%
Total revenues	<u>1,470,866</u>	<u>2,400,557</u>	<u>63%</u>
Expenses:			
Pupil personnel services	489	-	-100%
Board	21,119	24,453	16%
General administration	369,096	415,600	13%
Facilities acquisition and construction	267,002	155,508	-42%
Fiscal services	261,749	256,537	-2%
Pupil transportation	398,843	539,410	35%
Operation of plant	177,448	78,223	-56%
Community services	357,063	114,304	-68%
Interest	<u>303,732</u>	<u>310,228</u>	<u>2%</u>
Total expenses	<u>2,156,541</u>	<u>1,894,263</u>	<u>-12%</u>
Change in net assets	<u><u>\$ (685,675)</u></u>	<u><u>\$ 506,294</u></u>	<u><u>174%</u></u>

Revenues at the state and local sources level represented one-time revenue from the state supporting the repayment of debt service for the Edward W. Bok Academy campus improvements. Contributions and other revenue increased as a result of a rise in transportation revenues generated at selected schools based on their full-time equivalent student counts and the increased chargeback to the schools for administrative services. Interest income continues to remain low as exceptionally low interest rates on cash balances continue.

Board expenses consist primarily of audit fees and board governance training. The increase in general administration is the result of an increase in compensated absences payable and internal account activity. The facilities acquisition and construction expenses decreased to only reflect the amortization of loan costs and depreciation expense for the buildings on the Edward W. Bok Academy campus previously recorded in the operation of plant function. The transportation expenses represent the transportation services provided by the Company to selected schools. Student transportation is provided for instruction and extra-curricular activities. The decline in operation of plant expenses is due to recording depreciation for the buildings on the Edward W. Bok Academy campus noted previously. The decrease in activity for community services was due to the termination of the Family Literacy program activity from the Company at the end of 2009. Interest activity reflects a full year of interest expense on the Company's long-term debt as presented in Note 4 to the financial statements.

FINANCIAL ANALYSIS OF THE COMPANY'S FUNDS

As the Company completed the year, its governmental funds reported a combined fund deficit of \$179,754, which was a decrease in the deficit from the prior year. Revenues increased overall and expenditures decreased overall during fiscal 2010 for the same reasons described above.

General Fund Budgetary Highlights

Over the course of the year, the Company revised its budget. The budget amendments were performed primarily to reflect revised student enrollment and student funding throughout the year at the charter schools, which directly affects the administrative fee charged to the schools.

For the year ended June 30, 2010, actual general fund revenues were approximately \$102,000 above the budgeted amounts, primarily due to the fact that internal account revenues are not budgeted. Actual general fund expenditures were approximately \$37,000 above the budgeted amounts, which represents an approximate 2% budget variance. This was primarily due to the fact that internal account expenditures are not budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2010, the Company had invested \$4,940,202 in a broad range of capital assets, including land, buildings, motor vehicles, computers and other electronic equipment (see table below).

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2009</u>	<u>2010</u>	
Land	\$ 707,882	\$ 707,882	0%
Buildings	4,005,049	4,106,080	3%
Furniture, fixtures and equipment	109,654	109,740	0%
Motor vehicles	<u>6,000</u>	<u>16,500</u>	<u>175%</u>
Total capital assets	<u>\$4,828,585</u>	<u>\$4,940,202</u>	<u>2%</u>

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

- Bok Academy property improvements – \$101,031
- Two used buses – \$10,500

The Company's fiscal year 2011 capital budget does not include significant spending related to capital projects. More detailed information about the Company's capital assets is presented in Note 3 to the financial statements.

Long-Term Debt

As of June 30, 2010, the Company had \$4,453,963 in borrowings outstanding, as compared to \$4,902,935 in the prior year. The decrease in long-term debt is due to the amortization of the interest discount on the \$500,000 non-interest bearing note payable to a not-for-profit corporation, offset by the payoff of the note that occurred in fiscal 2010. Interest expense related to these borrowings totaled \$310,228 for the year ended June 30, 2010. More detailed information about the Company's long-term debt is presented in Note 4 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 2011:

- Fluctuations in state educational funding and student enrollment
- Eligible Federal stimulus funding for education
- Escalating cost of goods and services
- Increases in the cost of employee benefits

Amounts available for appropriation in the general fund are approximately \$1,803,000, a decrease of 25% from the actual 2010 amount of \$2,400,557. The decrease in revenue is attributed to the elimination of one-time state revenues and miscellaneous revenues received in 2010 through the Company rather than received directly at the selected schools.

Budgeted general fund expenditures are expected to decrease to approximately \$1,803,000, or 21%, from the fiscal 2010 actual figure of \$2,285,764. The decline in the expenditure base is due to not budgeting for internal account activity and expenditures associated with the completion of the Edward W. Bok Academy site development project in fiscal 2010. The Company will continue providing transportation to selected schools in the system for the fiscal 2011 year.

If these estimates are realized, the Company's general fund balance is expected to remain unchanged by the close of fiscal 2011.

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the Company's finances and to demonstrate the Company's accountability for the money it receives. Should additional information be required, please contact the Company'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 Directors of Lake Wales Charter Schools, Inc. –
Central Administrative Office

We have audited the accompanying financial statements of the governmental activities and the major fund of Lake Wales Charter Schools, Inc. – Central Administrative Office (the “Company”) as of and for the year ended June 30, 2010, which collectively comprise the Company’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Company’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. 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. – Central Administrative Office at June 30, 2010, 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.

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 page 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, 2010

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 4,330,018
Accounts receivable	10,805
Due from Edward W. Bok Academy	273,078
Prepaid expenses and other assets	257,590
Capital assets:	
Land	707,882
Buildings	4,106,080
Furniture, fixtures and equipment	109,740
Motor vehicles	16,500
Less accumulated depreciation	(395,874)
Total capital assets, net	4,544,328
Total assets	\$ 9,415,819
LIABILITIES	
Accounts payable and accrued expenses	\$ 1,552,525
Due to charter schools	3,287,995
Compensated absences payable	95,658
Long-term liabilities:	
Portion due or payable within one year:	
Mortgage notes payable	99,608
Portion due or payable after one year:	
Mortgage notes payable	4,354,355
Total liabilities	9,390,141
NET ASSETS	
Invested in capital assets, net of related debt	301,090
Unrestricted	(275,412)
Total net assets	25,678
Total liabilities and net assets	\$ 9,415,819

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

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
Governmental activities:						
Board	\$ 24,453	\$ -	\$ -	\$ -	\$ (24,453)	\$ (24,453)
General administration	415,600	-	-	-	(415,600)	(415,600)
Facilities acquisition and construction	155,508	-	-	-	(155,508)	(155,508)
Fiscal services	256,537	-	-	-	(256,537)	(256,537)
Pupil transportation	539,410	-	-	-	(539,410)	(539,410)
Operation of plant	78,223	-	-	-	(78,223)	(78,223)
Community services	114,304	-	-	-	(114,304)	(114,304)
Interest	310,228	-	-	-	(310,228)	(310,228)
Total primary government	<u>\$ 1,894,263</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,894,263)</u>	<u>(1,894,263)</u>
General revenues:						
State and local sources					500,000	500,000
Contributions and other revenue					1,900,557	1,900,557
Total general revenues					<u>2,400,557</u>	<u>2,400,557</u>
Change in net assets					506,294	506,294
Net assets at beginning of year					(480,616)	(480,616)
Net assets at end of year					<u>\$ 25,678</u>	<u>\$ 25,678</u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2010

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 4,330,018
Accounts receivable	10,805
Due from Edward W. Bok Academy	273,078
Prepaid expenses	<u>46,865</u>
Total assets	<u><u>\$ 4,660,766</u></u>
LIABILITIES AND FUND BALANCE (DEFICIT)	
Accounts payable and accrued expenditures	\$ 1,552,525
Due to charter schools	<u>3,287,995</u>
Total liabilities	<u>4,840,520</u>
Fund balance (deficit):	
Unreserved:	
Designated for School-based student activity organizations	14,197
Undesignated	<u>(193,951)</u>
Total fund balance (deficit)	<u>(179,754)</u>
Total liabilities and fund balance (deficit)	<u><u>\$ 4,660,766</u></u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

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

JUNE 30, 2010

Total fund balance (deficit) - governmental fund	\$	(179,754)
---	----	-----------

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 fund. The cost of the assets is \$4,940,202, and the accumulated depreciation is \$395,874.		4,544,328
---	--	-----------

Non-current assets, including net deferred loan costs, are not financial resources and, therefore, are not reported as assets in the governmental fund.		210,725
---	--	---------

Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental fund.		(95,658)
--	--	----------

Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental fund. Long-term liabilities at year-end consist of:

Mortgage note payable		(4,453,963)
-----------------------	--	-------------

Total net assets - governmental activities	\$	25,678
---	-----------	---------------

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

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE (DEFICIT) - GOVERNMENTAL FUND**

FOR THE YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>
REVENUES	
State and local sources	\$ 500,000
Contributions and other revenue	<u>1,900,557</u>
Total revenues	<u>2,400,557</u>
EXPENDITURES	
Current:	
Board	24,453
General administration	396,250
Facilities acquisition and construction	7,665
Fiscal services	257,816
Pupil transportation	535,102
Operation of plant	78,831
Community services	112,925
Debt service:	
Principal	500,000
Interest	259,200
Capital outlay	<u>113,522</u>
Total expenditures	<u>2,285,764</u>
Net changes in fund balance (deficit)	114,793
Fund deficit at beginning of year	<u>(294,547)</u>
Fund deficit at end of year	<u><u>\$ (179,754)</u></u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (DEFICIT) OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2010

Net changes in fund balance (deficit) - total governmental fund **\$ 114,793**

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 (\$147,094) exceeds capital outlays (\$113,522) in the current period. (33,572)

Governmental funds report deferred loan costs paid as expenditures. However, in the statement of activities, the cost of those assets is allocated over the loan term and reported as amortization expense. This is the amount of amortization expense in the current period. (9,162)

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 fund. (14,737)

Repayments of long-term liabilities are reported as expenditures in the governmental fund because they require the use of current financial resources. They are reported as a reduction in long-term liabilities in the statement of net assets. This amount represents the current year repayment of principal on long-term debt. 500,000

Proceeds from long-term debt are reported as other financing sources in the governmental fund because they represent an increase in current financial resources. They are reported as an increase in long-term liabilities in the statement of net assets. These amounts represent the current year borrowings under long-term liabilities:

Amortization of discount on mortgage note payable (51,028)

Change in net assets of governmental activities **\$ 506,294**

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

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

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. The Central Administrative Office operates as part of the Company with six public charter schools in the Lake Wales, Florida area. The charter schools include Dale R. Fair Babson Park Elementary School, Edward W. Bok Academy, Hillcrest Elementary School, Janie Howard Wilson Elementary School, Lake Wales High School and Polk Avenue Elementary School. The governing body of the Company is the not-for-profit corporation Board of Trustees, which is composed of no less than three and no more than nine members.

The Company provides certain management and administrative services to the charter schools and essentially has no other operations; therefore, for financial reporting purposes, the Company has elected to follow generally accepted accounting principles applicable to state and local governmental units. The charter schools also use this same form of financial reporting.

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

Recently adopted accounting pronouncements

During fiscal year 2010, the Company adopted changes issued by the Financial Accounting Standards Board ("FASB") related to disclosure of subsequent events. These changes require 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 Company has evaluated subsequent events through September 15, 2010, which is the date the financial statements were available to be issued.

During fiscal year 2010, the Company adopted guidance issued by the GASB that incorporates accounting and financial reporting guidance previously contained in the American Institute of Certified Public Accountants ("AICPA") auditing literature into the GASB's accounting and financial reporting literature for state and local governments. This guidance did not have a material impact on the financial statements of the Company.

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Basis of presentation

The Company'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 Company as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Company'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 Company are generally divided into three categories:

- *Governmental activities* – most of the Company's basic services are included here, such as general administration. Funds received through the administrative fee charged to the charter schools and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the Company may charge fees to help it cover the costs of certain services it provides. The Company currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the Company.

The fund financial statements provide more detailed information about the Company's most significant funds, not the Company 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. 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.

For purposes of these statements, the general fund is the only major fund. There are no other governmental funds.

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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 Company 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).

Deposits and investments

During the year ended June 30, 2010, 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 as required by Chapter 280, Florida Statutes. The Company's cash consists primarily of demand deposits with financial institutions.

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Capital assets and depreciation

Expenditures for capital assets acquired for general Company 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>
Buildings	30
Furniture, fixtures and equipment	3
Motor vehicles	3

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

Long-term debt

Long-term obligations that will be financed by resources to be received in the future by the general fund are reported in the government-wide financial statements, not in the general fund. Information relative to changes in long-term debt is described in Note 4.

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.

Revenue sources

Revenues for current operations are received primarily from an administrative fee charged to the charter schools. The revenue stream of the charter schools 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.

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

The Company may also receive 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.

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 expenditures for the period presented. Actual results could differ significantly from those estimates.

2 ACCOUNTS RECEIVABLE

Accounts receivable included in the accompanying financial statements include \$10,805 in funds receivable for transportation services provided to an unrelated charter school in Polk County and from various employees for insurance benefits. Based on collectibility of funds from these sources, an allowance for doubtful accounts is not considered necessary.

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

3 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 707,882	\$ -	\$ -	\$ 707,882
Total capital assets not being depreciated at historical cost	<u>707,882</u>	<u>-</u>	<u>-</u>	<u>707,882</u>
Other capital assets:				
Buildings	4,005,049	101,031	-	4,106,080
Furniture, fixtures and equipment	109,654	1,991	(1,905)	109,740
Motor vehicles	<u>6,000</u>	<u>10,500</u>	<u>-</u>	<u>16,500</u>
Total other capital assets at historical cost	<u>4,120,703</u>	<u>113,522</u>	<u>(1,905)</u>	<u>4,232,320</u>
Less accumulated depreciation for:				
Buildings	(148,374)	(135,034)	-	(283,408)
Furniture, fixtures and equipment	(102,111)	(7,652)	1,905	(107,858)
Motor vehicles	<u>(200)</u>	<u>(4,408)</u>	<u>-</u>	<u>(4,608)</u>
Total accumulated depreciation	<u>(250,685)</u>	<u>(147,094)</u>	<u>1,905</u>	<u>(395,874)</u>
Other capital assets, net	<u>3,870,018</u>	<u>(33,572)</u>	<u>-</u>	<u>3,836,446</u>
Governmental activities capital assets, net	<u>\$ 4,577,900</u>	<u>\$ (33,572)</u>	<u>\$ -</u>	<u>\$ 4,544,328</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General administration	\$ 3,828
Facilities acquisition and construction	138,681
Fiscal services	177
Pupil transportation	<u>4,408</u>
Total governmental activities depreciation expense	<u>\$ 147,094</u>

LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE

NOTES TO FINANCIAL STATEMENTS
(continued)

4 LONG-TERM DEBT

Long-term debt consists of the following as of June 30, 2010:

Mortgage note payable to a financial institution; principal and interest due monthly at prime plus 1% with a floor of 5.5% (5.5% as of June 30, 2010); interest rate adjusted quarterly; maturity date of June 24, 2033; secured by a first mortgage on the Edward W. Bok Academy school facility and by all furniture, fixtures and equipment of the Company and the schools.	\$ 4,453,963
Less amount due or payable within one year	<u>(99,608)</u>
Amount due or payable after one year	<u>\$ 4,354,355</u>

The mortgage note payable described above has been guaranteed 80% by the Rural Business-Cooperative Service, an agency of the United States Department of Agriculture ("USDA"). A USDA annual renewal fee of ¼% of the USDA-guaranteed portion of the loan is due on January 31st of each year and is calculated by multiplying the fee rate by the outstanding principal balance of the loan as of December 31st of each year multiplied by the percent of the guarantee. The loan agreement also contains certain financial covenants with which the Company must comply. As of June 30, 2010, the Company was in compliance with these restrictive covenants.

Loan costs in the original amount of \$229,049 incurred in connection with the mortgage note payable are being amortized on a straight-line basis over the 25-year term of the note. The net amount of \$210,725 as of June 30, 2010 is included in other assets in the accompanying statement of net assets.

As of June 30, 2009, the Company had a \$500,000 mortgage note payable to a not-for-profit corporation that did not bear interest provided that the principal amount was paid in full by the maturity date of February 28, 2011. This note was paid off by the Company during fiscal 2010. For the year ended June 30, 2010, \$51,028 is included in interest expense from the amortization of the discount on this mortgage note payable prior to the payoff date.

In connection with the above transaction, the Company entered into a lease agreement with the not-for-profit corporation, the seller of the property, whereby the not-for-profit corporation would occupy a portion of the purchased property for \$100 per year. The lease agreement originally expired on February 28, 2011, which coincided with the maturity date of the note payable. As consideration for the minimal lease payment, interest did not accrue on the note payable if it was paid in full by the maturity date noted above. The accompanying financial statements include \$44,534 in contributions and other revenue and community services expense related to

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

this transaction, which approximates the fair market value of the rent. This lease agreement terminated in December 2009 when the note was paid off.

Long-term debt activity during the current fiscal year was as follows:

Balance outstanding at beginning of year	\$ 4,902,935
Additions	51,028
Reductions	<u>(500,000)</u>
Balance outstanding at end of year	<u>\$ 4,453,963</u>
Amount due within one year	<u>\$ 99,608</u>

Future debt service requirements related to long-term debt are as follows:

Year ended June 30,	Principal	Interest	Total
2011	\$ 99,608	\$ 244,502	\$ 344,110
2012	103,244	240,866	344,110
2013	109,815	234,295	344,110
2014	116,098	228,012	344,110
2015	122,740	221,370	344,110
2016 - 2020	726,180	994,371	1,720,551
2021 - 2025	959,906	760,644	1,720,550
2026 - 2030	1,267,898	452,653	1,720,551
2031 - 2033	<u>948,474</u>	<u>83,856</u>	<u>1,032,330</u>
Total	<u>\$ 4,453,963</u>	<u>\$ 3,460,569</u>	<u>\$ 7,914,532</u>

Interest paid during the year ended June 30, 2010 totaled \$259,200.

5 RELATED PARTY TRANSACTIONS

The Company maintains its bank accounts for the charter schools on a pooled basis for cash management purposes. The amount due to the charter schools as of June 30, 2010 of \$3,287,995 represents amounts collected by the Company on behalf of the charter schools for future operating expenses of the charter schools. As a result of timing, as of June 30, 2010, the majority of the balance is for payroll and related expenses for the charter schools that will be paid in July 2010.

LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE

NOTES TO FINANCIAL STATEMENTS
(continued)

The Company provides certain management and administrative services to the charter schools. 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, 2010, revenues for these services totaled approximately \$843,000 and are included in the accompanying financial statements as contributions and other revenue.

The Company provides transportation services for Dale R. Fair Babson Park Elementary School, Edward W. Bok Academy and Hillcrest Elementary School in exchange for the transportation revenue generated by these schools based on their full-time equivalent student counts. Amounts received from these schools for transportation services during fiscal 2010 totaled approximately \$511,000.

For the year ended June 30, 2010, 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 unreserved and undesignated general fund balance (deficit) of each school as of June 30, 2010:

Dale R. Fair Babson Park Elementary School	\$ 260,753
Edward W. Bok Academy	(11,074)
Hillcrest Elementary School	793,988
Janie Howard Wilson Elementary School	568,336
Lake Wales High School	1,467,027
Polk Avenue Elementary School	<u>323,182</u>
Total	<u>\$ 3,402,212</u>

The amount due from Edward W. Bok Academy (the "Academy") in the accompanying financial statements represents certain pre-opening expenses paid by the Company on behalf of the Academy.

The Company also provides the use of the school building and facilities for the Academy. Title to the school building and facilities remains with the Company. Effective July 1, 2009, the Company entered into a lease agreement with the Academy for use of the school building and facilities. The lease payments are approximately equal to the debt service payments due on the mortgage, which is the obligation of the Company. The lease will terminate on June 30, 2025, unless the Company fully satisfies the outstanding mortgage on the premises before the termination date. For the year ended June 30, 2010, revenues from this lease totaled approximately \$392,000 and are included in the accompanying financial statements as contributions and other revenue.

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**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 Company 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 Company 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 at June 30, 2010 may be impaired.

In the opinion of the Company, 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 Company 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.

Operating lease commitments

The Company leases several buses and portable classrooms under non-cancelable operating leases for purposes of providing transportation and instruction services. The leases require the Company to pay insurance and other costs. The portable classrooms lease expires in August 2011, and the bus lease expires in August 2013.

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Aggregate remaining minimum rental commitments as of June 30, 2010 under these leases are summarized as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 174,959
2012	148,779
2013	146,399
2014	<u>24,400</u>
Total	<u>\$ 494,537</u>

Lease payments were approximately \$173,000 for the year ended June 30, 2010.

8 RETIREMENT PROGRAM

Defined benefit plan

All regular employees of the Company 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 Company had one DROP participant during fiscal 2010.

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Funding policy

The contribution rates for members are established, and may be amended, by the State of Florida. During the 2010 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%	9.85%
Florida Retirement System, Reemployed Retiree	(B)	(B)

- (A) Employer rates include 1.11% for the post-employment health insurance supplement and 0.05% for administrative costs of the Public Employee Optional Retirement Program.
- (B) Contribution rates are dependent upon the retirement class in which reemployed.

The Company'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 Company. The Company's contribution to the Plan for the year ended June 30, 2010 totaled \$60,051, which was based on the required contributions for the fiscal year.

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 Company had six PEORP participants during fiscal 2010.

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.

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

9 OFFICE FACILITY

The Company leases its administrative office facility from an unrelated party on a month-to-month basis at no charge. The lease requires the Company to pay insurance and other costs. Management of the Company believes that considerable uncertainty exists regarding the valuation of facilities utilized; consequently, the financial statements reflect no such charges of expense.

**LAKE WALES CHARTER SCHOOLS, INC.
CENTRAL ADMINISTRATIVE OFFICE**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
State and local sources	\$ -	\$ 500,000	\$ 500,000	\$ -
Contributions and other revenue	1,698,140	1,798,530	1,900,557	102,027
Total revenues	<u>1,698,140</u>	<u>2,298,530</u>	<u>2,400,557</u>	<u>102,027</u>
EXPENDITURES				
Current:				
Board	23,425	23,425	24,453	(1,028)
General administration	732,437	380,754	396,250	(15,496)
Facilities acquisition and construction	-	108,697	7,665	101,032
Fiscal services	266,286	272,687	257,816	14,871
Pupil transportation	426,122	528,008	535,102	(7,094)
Operation of plant	66,691	100,121	78,831	21,290
Community services	75,393	75,393	112,925	(37,532)
Debt service:				
Principal	-	500,000	500,000	-
Interest	259,505	259,505	259,200	305
Capital outlay	-	-	113,522	(113,522)
Total expenditures	<u>1,849,859</u>	<u>2,248,590</u>	<u>2,285,764</u>	<u>(37,174)</u>
Net changes in fund deficit	(151,719)	49,940	114,793	64,853
Fund deficit at beginning of year	<u>(294,547)</u>	<u>(294,547)</u>	<u>(294,547)</u>	<u>-</u>
Fund deficit at end of year	<u>\$ (446,266)</u>	<u>\$ (244,607)</u>	<u>\$ (179,754)</u>	<u>\$ 64,853</u>

See report of independent auditors.