



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

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

JUNE 30, 2011



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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, 2011. 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, 2011, the Company’s revenues exceeded expenses by \$28,036. This represents a decline from the prior year when revenues exceeded expenses by \$506,294.
- Total assets were \$10,254,265, and total liabilities were \$10,200,551, resulting in net assets of \$53,714.
- Overall, revenues decreased by approximately \$443,000, which represents an 18% decrease from the prior year.
- Overall, expenses increased by approximately \$35,000, which represents a 2% 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 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, 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	\$ 4,871,491	\$ 5,825,326	20%
Capital assets, net	4,544,328	4,428,939	-3%
Total assets	<u>9,415,819</u>	<u>10,254,265</u>	<u>9%</u>
Current and other liabilities	4,936,178	5,846,187	18%
Long-term liabilities	4,453,963	4,354,364	-2%
Total liabilities	<u>9,390,141</u>	<u>10,200,551</u>	<u>9%</u>
Net assets:			
Invested in capital assets, net of related debt	301,090	276,138	-8%
Unrestricted	<u>(275,412)</u>	<u>(222,424)</u>	<u>19%</u>
Total net assets	<u>\$ 25,678</u>	<u>\$ 53,714</u>	<u>109%</u>

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 2011. Long-term liabilities decreased as a result of the payments made on the outstanding note payable 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 decreased by 18% to \$1,957,698, and the total cost of all programs and services increased by 2% to \$1,929,662 – see table below.

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2010</u>	<u>2011</u>	<u>(Decrease)</u>
Revenues:			
State and local sources	\$ 500,000	\$ -	-100%
Contributions and other revenue	1,900,557	1,957,698	3%
Total revenues	<u>2,400,557</u>	<u>1,957,698</u>	<u>-18%</u>
Expenses:			
Board	24,453	36,581	50%
General administration	415,600	401,828	-3%
Facilities acquisition and construction	155,508	211,228	36%
Fiscal services	256,537	248,443	-3%
Pupil transportation	539,410	609,086	13%
Operation of plant	78,223	101,028	29%
Community services	114,304	68,812	-40%
Interest	310,228	252,656	-19%
Total expenses	<u>1,894,263</u>	<u>1,929,662</u>	<u>2%</u>
Change in net assets	<u>\$ 506,294</u>	<u>\$ 28,036</u>	<u>-94%</u>

Decreased revenues at the state and local sources level represent the elimination of one-time revenue from the state supporting the repayment of debt service for the Edward W. Bok Academy campus facilities. 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 of fees for audit, legal and board governance training. The decrease in general administration is the result of a decrease in compensated absences payable and internal account activity. The facilities acquisition and construction expenses increased for the improvements to the Fulton building on the Edward W. Bok Academy campus. Student transportation is provided by the Company for instruction and extra-curricular activities to selected schools. Increased fuel cost and vehicle maintenance were the major source of the increase under pupil transportation. The increase in operation of plant expenses is due to insurance premiums and catch-up payments for property taxes not previously charged under the lease. The decrease in activity for community services was due to no longer recognizing the fair market value of rent previously charged to Warner University for facility use prior to paying off the note. The change in interest activity reflects a full year of interest expense with principal

payments commencing 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 \$143,323, which was a decrease in the deficit from the prior year. Revenues decreased overall and expenditures increased overall during fiscal 2011 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, 2011, actual general fund revenues were approximately \$108,000 above the budgeted amounts, primarily due to the fact that internal account revenues are not budgeted and increased amounts for transportation contracted services. Actual general fund expenditures were approximately \$110,000 above the budgeted amounts, which represents an approximate 6% budget variance. This was primarily due to increased cost to operate transportation services and building renovations on the Edward W. Bok Academy campus maintained by the fact that internal account expenditures are not budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2011, the Company had invested \$4,959,248 in a broad range of capital assets, including land, buildings, motor vehicles, computers and other electronic equipment (see table below).

	Governmental Activities		Increase
	2010	2011	(Decrease)
Land	\$ 707,882	\$ 707,882	0%
Buildings	4,106,080	4,106,080	0%
Furniture, fixtures and equipment	109,740	111,676	2%
Motor vehicles	16,500	33,610	104%
Total capital assets	<u>\$4,940,202</u>	<u>\$4,959,248</u>	<u>0%</u>

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

- Two used buses – \$17,110
- Computer equipment – \$1,936

The Company's fiscal year 2012 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, 2011, the Company had \$4,354,364 in borrowings outstanding, as compared to \$4,453,963 in the prior year. The decrease in long-term debt is due to current year principal payments. Interest expense related to these borrowings totaled \$252,656 for the year ended June 30, 2011. 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 2012:

- Decrease in state educational per pupil funding and student enrollment
- Elimination of 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 \$2,672,158, an increase of 36% from the actual 2011 amount of \$1,957,698. The increase in revenue is attributed to the additional transportation revenue generated for expanding transportation service to all of the schools of the Company.

Budgeted general fund expenditures are expected to increase to \$2,857,025, or 49%, from the fiscal 2011 actual figure of \$1,921,267. The Company's expansion of transportation to all of its schools in fiscal year 2012 is the source of this expenditure base increase, accounted for in operations and the associated debt service for vehicles.

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

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, 2011, 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 the major fund of Lake Wales Charter Schools, Inc. – Central Administrative Office 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.

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, 2011

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

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 5,238,873
Accounts receivable	23,922
Due from Edward W. Bok Academy	273,078
Prepaid expenses and other assets	289,453
Capital assets:	
Land	707,882
Buildings	4,106,080
Furniture, fixtures and equipment	111,676
Motor vehicles	33,610
Less accumulated depreciation	(530,309)
Total capital assets, net	4,428,939
Total assets	\$ 10,254,265
LIABILITIES	
Accounts payable and accrued expenses	\$ 1,161,205
Due to charter schools	4,605,881
Compensated absences payable	79,101
Long-term liabilities:	
Portion due or payable within one year:	
Mortgage notes payable	103,244
Portion due or payable after one year:	
Mortgage notes payable	4,251,120
Total liabilities	10,200,551
NET ASSETS	
Invested in capital assets, net of related debt	276,138
Unrestricted	(222,424)
Total net assets	53,714
Total liabilities and net assets	\$ 10,254,265

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, 2011

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Board	\$ 36,581	\$ -	\$ -	\$ -	\$ (36,581)	\$ (36,581)
General administration	401,828	-	-	-	(401,828)	(401,828)
Facilities acquisition and construction	211,228	-	-	-	(211,228)	(211,228)
Fiscal services	248,443	-	-	-	(248,443)	(248,443)
Pupil transportation	609,086	-	-	-	(609,086)	(609,086)
Operation of plant	101,028	-	-	-	(101,028)	(101,028)
Community services	68,812	-	-	-	(68,812)	(68,812)
Interest	252,656	-	-	-	(252,656)	(252,656)
Total primary government	\$ 1,929,662	\$ -	\$ -	\$ -	(1,929,662)	(1,929,662)
General revenues:						
Contributions and other revenue					1,957,698	1,957,698
Total general revenues					1,957,698	1,957,698
Change in net assets					28,036	28,036
Net assets at beginning of year					25,678	25,678
Net assets at end of year					\$ 53,714	\$ 53,714

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, 2011

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 5,238,873
Accounts receivable	23,922
Due from Edward W. Bok Academy	273,078
Prepaid expenses	<u>87,890</u>
Total assets	<u><u>\$ 5,623,763</u></u>
LIABILITIES AND FUND BALANCE (DEFICIT)	
Accounts payable and accrued expenditures	\$ 1,161,205
Due to charter schools	<u>4,605,881</u>
Total liabilities	<u>5,767,086</u>
Fund balance (deficit):	
Nonspendable:	
Prepaid expenses	87,890
Unassigned	<u>(231,213)</u>
Total fund balance (deficit)	<u>(143,323)</u>
Total liabilities and fund balance (deficit)	<u><u>\$ 5,623,763</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, 2011

Total fund balance (deficit) - governmental fund	\$	(143,323)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental fund. The cost of the assets is \$4,959,248, and the accumulated depreciation is \$530,309.		4,428,939
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Non-current assets, including net deferred loan costs, are not financial resources and, therefore, are not reported as assets in the governmental fund.		201,563
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Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental fund.		(79,101)
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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		(4,354,364)
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Total net assets - governmental activities	\$	53,714
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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, 2011

	<u>General Fund</u>
REVENUES	
Contributions and other revenue	\$ 1,957,698
Total revenues	<u>1,957,698</u>
EXPENDITURES	
Current:	
Board	36,581
General administration	405,303
Facilities acquisition and construction	79,537
Fiscal services	260,883
Pupil transportation	599,662
Operation of plant	101,028
Community services	66,972
Debt service:	
Principal	99,599
Interest	252,656
Capital outlay	<u>19,046</u>
Total expenditures	<u>1,921,267</u>
Net changes in fund balance (deficit)	36,431
Fund deficit at beginning of year	<u>(179,754)</u>
Fund deficit at end of year	<u><u>\$ (143,323)</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, 2011

Net changes in fund balance (deficit) - total governmental fund	\$ 36,431
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$134,435) exceeds capital outlays (\$19,046) in the current period.	(115,389)
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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)
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Compensated absences included in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.	16,557
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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.	<u>99,599</u>
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Change in net assets of governmental activities	<u><u>\$ 28,036</u></u>
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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, 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. 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 2011, the Company 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 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.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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 fund in the financial statements of this report is as follows:

Governmental Fund:

- 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.

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.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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, 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 as required by 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 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

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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.

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.

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.

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

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.

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 Company’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 Company’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 charter schools are required by the District School Board of Polk County, Florida (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 Company’s other funds.

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

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.

Subsequent events

The Company 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 company 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 \$23,922 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, 2011 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	4,106,080	-	-	4,106,080
Furniture, fixtures and equipment	109,740	1,936	-	111,676
Motor vehicles	16,500	17,110	-	33,610
Total other capital assets at historical cost	<u>4,232,320</u>	<u>19,046</u>	<u>-</u>	<u>4,251,366</u>
Less accumulated depreciation for:				
Buildings	(283,408)	(122,529)	-	(405,937)
Furniture, fixtures and equipment	(107,858)	(3,784)	-	(111,642)
Motor vehicles	(4,608)	(8,122)	-	(12,730)
Total accumulated depreciation	<u>(395,874)</u>	<u>(134,435)</u>	<u>-</u>	<u>(530,309)</u>
Other capital assets, net	<u>3,836,446</u>	<u>(115,389)</u>	<u>-</u>	<u>3,721,057</u>
Governmental activities capital assets, net	<u>\$ 4,544,328</u>	<u>\$ (115,389)</u>	<u>\$ -</u>	<u>\$ 4,428,939</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General administration	\$ 3,143
Facilities acquisition and construction	122,529
Fiscal services	641
Pupil transportation	<u>8,122</u>
Total governmental activities depreciation expense	<u>\$ 134,435</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, 2011:

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, 2011); 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 charter schools.	\$ 4,354,364
Less amount due or payable within one year	<u>(103,244)</u>
Amount due or payable after one year	<u><u>\$ 4,251,120</u></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, 2011, 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 \$201,563 as of June 30, 2011 is included in other assets in the accompanying statement of net assets.

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

Balance outstanding at beginning of year	\$ 4,453,963
Additions	-
Reductions	<u>(99,599)</u>
Balance outstanding at end of year	<u><u>\$ 4,354,364</u></u>
Amount due within one year	<u><u>\$ 103,244</u></u>

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

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

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	129,171	214,939	344,110
2017 - 2021	768,317	952,233	1,720,550
2022 - 2026	1,014,824	705,726	1,720,550
2027 - 2031	1,340,436	380,114	1,720,550
2032 - 2033	649,719	38,500	688,219
Total	<u>\$ 4,354,364</u>	<u>\$ 3,216,055</u>	<u>\$ 7,570,419</u>

Interest paid during the year ended June 30, 2011 totaled \$252,656.

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, 2011 of \$4,605,881 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, 2011, the majority of the balance is for payroll and related expenses for the charter schools that will be paid in July 2011.

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, 2011, revenues for these services totaled approximately \$877,000 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 2011 totaled approximately \$518,000.

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

For the year ended June 30, 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>\$ 4,605,800</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, 2011, revenues from this lease totaled approximately \$413,000 and are included in the accompanying financial statements as contributions and other revenue.

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.

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

7 COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The Company may participate 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 as of June 30, 2011 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 leases expire in August 2013 and August 2015.

Aggregate remaining minimum rental commitments as of June 30, 2011 under these leases are summarized as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 148,190
2013	145,810
2014	39,368
2015	18,079
2016	<u>1,507</u>
Total	<u>\$ 352,954</u>

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

Lease payments were approximately \$174,000 for the year ended June 30, 2011.

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 two 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.
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

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, 2011 totaled \$68,847, 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 Company had six 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 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 property taxes, 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.

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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				
Contributions and other revenue	\$ 1,802,602	\$ 1,849,592	\$ 1,957,698	\$ 108,106
Total revenues	<u>1,802,602</u>	<u>1,849,592</u>	<u>1,957,698</u>	<u>108,106</u>
EXPENDITURES				
Current:				
Board	38,500	38,500	36,581	1,919
General administration	397,689	399,783	405,303	(5,520)
Facilities acquisition and construction	45,000	23,572	79,537	(55,965)
Fiscal services	277,943	269,937	260,883	9,054
Pupil transportation	526,369	553,377	599,662	(46,285)
Operation of plant	93,738	108,102	101,028	7,074
Community services	63,058	63,318	66,972	(3,654)
Debt service:				
Principal	91,872	99,608	99,599	9
Interest	268,433	254,669	252,656	2,013
Capital outlay	<u>-</u>	<u>-</u>	<u>19,046</u>	<u>(19,046)</u>
Total expenditures	<u>1,802,602</u>	<u>1,810,866</u>	<u>1,921,267</u>	<u>(110,401)</u>
Net changes in fund deficit	-	38,726	36,431	(2,295)
Fund deficit at beginning of year	<u>(179,754)</u>	<u>(179,754)</u>	<u>(179,754)</u>	<u>-</u>
Fund deficit at end of year	<u><u>\$ (179,754)</u></u>	<u><u>\$ (141,028)</u></u>	<u><u>\$ (143,323)</u></u>	<u><u>\$ (2,295)</u></u>

See report of independent auditors.