

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.  
A CHARTER SCHOOL AND COMPONENT UNIT OF THE  
DISTRICT SCHOOL BOARD OF LEE COUNTY, FLORIDA**

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

**AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2012**

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**CITY OF PALMS CHARTER HIGH SCHOOL, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

The discussion and analysis of City of Palms Charter High School, Inc.'s (the "School") financial performance provides an overall review of the School's financial activities for the year ended June 30, 2012. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The year ended June 30, 2012 represents the sixth year of operations for the School. For the first five years of operation, the School was operated by a national educational management provider. Upon termination of that agreement, the School was required to change its name. "Life Skills Center – Lee County, Inc." officially became "City of Palms Charter High School, Inc. as of July 2011. As part of the renewal process with the School District of Lee County, the governing board contracted a local management company and is taking a more active part in operating the School.

### **Financial Highlights**

The assets of the School exceeded its liabilities at the close of the fiscal year by \$146,087 (net assets). This is an increase of \$97,240 from the prior year when assets of the School exceeded its liabilities by \$48,847. This increase is related to an increase in revenues from operations and settlement of transfers of assets related to the School's transition away from its former management company.

Revenues from state and local sources decreased approximately 20% (\$329,630). Revenues from federal sources were zero in this fiscal year compared to \$76,958 in the prior year. However, other revenue of \$66,345 related to the transition of School operations away from the previous management company was recognized in this fiscal year.

### **Using this Financial Report**

This report consists of three parts – the management discussion and analysis, the basic financial statements and notes to those statements. The basic financial statements include two kinds of statements that present different views of the School:

The first two statements – the "Statement of Net Assets" and the "Statement of Activities", are government-wide financial statements that provide information about the School's overall financial status.

The remaining statements - the "Balance Sheet" and the "Statement of Revenues, Expenditures and Changes in Fund Balances", are fund financial statements that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.

### **Government-Wide Financial Statements**

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

The government-wide financial statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – are one way to measure the School's financial position. Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**  
*(Continued)*

**Net Assets**

The table below provides a comparative summary of the School's net assets for fiscal years 2012 and 2011.

	<b>Net Assets</b>		
	<u>2012</u>	<u>2011</u>	Increase (Decrease)
<b>Assets</b>			
Current Assets	\$ 149,787	\$ 119,320	\$ 30,467
Capital Assets, net	<u>30,921</u>	<u>11,205</u>	<u>19,716</u>
Total Assets	<u>\$ 180,708</u>	<u>\$ 130,525</u>	<u>\$ 50,183</u>
<b>Liabilities</b>			
Current Liabilities	<u>\$ 34,621</u>	<u>\$ 81,678</u>	<u>\$ (47,057)</u>
<b>Net Assets</b>			
Invested in Capital Assets	\$ 30,921	\$ 11,205	\$ 19,716
Unrestricted	<u>115,166</u>	<u>37,642</u>	<u>77,524</u>
Total Net Assets	<u>\$ 146,087</u>	<u>\$ 48,847</u>	<u>\$ 97,240</u>

The increase in current assets is related to an increased cash balance resulting from operations during the fiscal year. Net capital assets increased as a result of the School having to purchase new software in the transition away from the previous management company. Unrestricted net assets increased due resolution of distribution of assets associated with the transition away from the previous management company.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

*(Continued)*

**Change in Net Assets**

The table below shows the comparative summary of changes in net assets, revenues and expenses for fiscal years 2012 and 2011.

<b>Change in Net Assets</b>			
	2012	2011	Increase (Decrease)
<b>Revenues</b>			
Federal Direct	\$ -	\$ 4,108	\$ (4,108)
Federal Sources Passed Through Local School District	-	72,850	(72,850)
State and Local Sources	1,294,847	1,624,477	(329,629)
Other Revenue	76,168	33,272	42,896
	<b>1,371,015</b>	<b>1,734,707</b>	<b>(363,691)</b>
<b>Expenses</b>			
Instruction	429,936	620,639	(190,703)
Pupil Personnel Services	86,763	94,428	(7,665)
Instructional Staff Training Services	8,927	11,290	(2,363)
Instruction Related Technology	17,680	115,903	(98,223)
Board	31,857	58,659	(26,802)
General Administration	237,636	196,089	41,547
School Administration	268,652	275,174	(6,522)
Facilities Acquisition and Construction	17,414	3,015	(216,275)
Pupil Transportation Services	18,235	27,417	(9,182)
Operation of Plant	154,038	409,762	(25,050)
Maintenance of Plant	2,637	13,993	(11,356)
	<b>1,273,775</b>	<b>1,826,369</b>	<b>(552,594)</b>
Change in Net Assets	<b>\$ 97,240</b>	<b>\$ (91,662)</b>	<b>\$ 188,902</b>

Total revenues decreased primarily due to the School's lower enrollment during the current fiscal year. Federal funds received in 2011 were not awarded in 2012. Total expenses were decreased primarily due to saving over \$250,000 in rent, operation and maintenance of plant when the physical location of the school was changed. Additional decreases in expenses were realized by careful fiscal oversight of expenditures throughout the year by the new educational management provider hired by the Board.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

*(Continued)*

**Fund Financial Statements**

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is a self-balancing set of accounts which the School uses to keep track of sources of funding and spending.

The School's basic services are included in governmental funds which focus 1) on how financial assets can be converted to cash flows and 2) on the year-end balances available for spending.

In particular, unassigned fund balance is a useful measure of the School's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the School's governmental funds reported a combined ending unassigned fund balance of \$91,332.

**Budgetary Highlights**

The School prepares an annual budget in June based on the expected funded enrollment figure for the following school year. The budget is revised once the School's final full-time equivalent enrollment is determined based on the required count dates.

This fiscal year was the first year of the School's 5-year renewal contract. The School opened and operated with a new name, a new location and a new educational management company. The School's final general fund budget estimated zero carryover for the following year. Actual results produced a carryover of \$115,166.

Net revenues from operations exceeded budgeted outcomes by nearly \$21,000. Revenues from the Florida Education Finance Program ("FEFP") were approximately \$9,100 less than estimated while total operating expenses were approximately \$30,200 less than estimated. Also included in revenue for this fiscal year, but not budgeted, are contributions of \$76,168. This amount is comprised of \$66,345 representing settlement of items still in negotiation between the Board and the previous management company at the end of last fiscal year but resolved during current year, \$7,000 in charitable contributions from the current educational management provider, and reimbursements for staff tuition and supplies from the School District of Lee County.

**Capital Assets**

At the end of fiscal year 2012, the School had \$30,921 invested in capital assets. During this fiscal year, the Board lowered the capitalization threshold from \$5,000 to \$1,000 to more accurately classify long-term assets. The table below shows comparative balances of capital assets for fiscal years 2012 and 2011.

**Capital Assets**  
(Net of Depreciation / Amortization)

	2012	2011	Increase (Decrease)
Furniture, Fixtures & Equipment	\$ 967	\$ 1,004	\$ (37)
Computer Software	21,611	10,201	11,410
Leasehold Improvements	8,343	-	8,343
Total	\$ 30,921	\$ 11,205	\$ 19,716

For more information of capital assets, see Note 4 in the Notes to the Basic Financial Statements.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

*(Continued)*

**Current Financial Statements**

Between fiscal year 2011 and fiscal year 2012, the Board of Directors successfully renewed its contract with the District School Board of Lee County for a second five year period, changed educational management providers, and changed the name and physical location of the School.

During the first five years of operation, the School contracted with WHLS of Florida, LLC ("WHLS") for the majority of its day-to-day services which included facilities, equipment, technology, operational support services, personnel and training, management and management consulting. WHLS agreed to provide these services for a percentage share (97%) of the per pupil revenues received by the School from the District thereby assuming the financial risk that such share of revenues would not be sufficient to cover expenses. Payment of any excess expenses by WHLS did not represent a loan or future obligation of the School to WHLS. For fiscal year 2011, WHLS provided \$33,272 in additional support to the School. At the end of fiscal year 2011, certain amounts were held apart from revenue pending final settlement of transitional issues as the change in educational management providers took effect.

The Board of Directors of the School has currently contracted with Consulting and Professional Assistance, Inc. ("CPA's") to provide day-to-day management services including facilities, equipment, technology, operational support services, financial reporting, personnel management, and consulting services. CPA's provides these services for a percentage share (15%) of the per pupil revenues received by the School.

**Contacting the School's Financial Management**

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Amy Rohner, Vice President of School Services, Consulting and Professional Assistance, Inc. at City of Palms Charter High School, 2830 Winkler Avenue, Suite 201, Fort Myers, Florida 33916.



**Report of Independent Auditors on Basic Financial Statements  
and Supplementary Information**

To the Board of Directors of City of Palms Charter High School, Inc., a Charter School  
and Component Unit of the District School Board of Lee County, Florida

We have audited the accompanying financial statements of the governmental activities and its major fund of City of Palms Charter High School, Inc. (the "School"), a charter school and component unit of the District School Board of Lee County, Florida, as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and its major funds of City of Palms Charter High School, Inc. as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2012 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 5 and page 23, respectively, 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.

*MC CRADY, HESS + RUTH*

Maitland, Florida  
September 4, 2012

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**

**A Charter School and Component Unit of the  
District School Board of Lee County, Florida**

**Statement of Net Assets**

**June 30, 2012**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 125,954
Other Assets	23,833
Capital assets:	
Leasehold improvements	9,204
Furniture, fixtures and equipment	8,680
Computer Software	103,775
Less accumulated depreciation	<u>(90,738)</u>
Total capital assets, net	<u>30,921</u>
 Total assets	 <u><u>\$ 180,708</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	<u>\$ 34,621</u>
Total liabilities	<u>34,621</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	30,921
Unrestricted	<u>115,166</u>
Total net assets	<u>146,087</u>
Total liabilities and net assets	<u><u>\$ 180,708</u></u>

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

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**

**A Charter School and Component Unit of the  
District School Board of Lee County, Florida**

**Statement of Activities  
For the Year Ended June 30, 2012**

	Program Specific Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental Activities:						
Instruction	\$ 429,936	\$ -	\$ -	\$ -	\$ (429,936)	\$ (429,936)
Pupil personnel services	86,763	-	-	-	(86,763)	(86,763)
Instructional staff training	8,927	-	-	-	(8,927)	(8,927)
Instructional related technology	17,680	-	-	-	(17,680)	(17,680)
Board	31,857	-	-	-	(31,857)	(31,857)
General administration	237,636	-	-	-	(237,636)	(237,636)
School administration	268,652	-	-	-	(268,652)	(268,652)
Facilities acquisition and construction	17,414	-	-	-	(17,414)	(17,414)
Transportation	18,235	-	-	-	(18,235)	(18,235)
Operation of plant	154,038	-	-	104,378	(49,660)	(49,660)
Maintenance of plant	2,637	-	-	-	(2,637)	(2,637)
<b>Total primary government</b>	<b>\$ 1,273,775</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 104,378</b>	<b>(1,169,397)</b>	<b>(1,169,397)</b>
General revenues:						
State and local sources					\$ 1,190,469	\$ 1,190,469
Contributions and other revenue					76,168	76,168
Total general revenue					1,266,637	1,266,637
Changes in net assets					97,240	97,240
Net assets at beginning of year					48,847	48,847
Net assets at end of year					\$ 146,087	\$ 146,087

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

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**

**A Charter School and Component Unit of the  
District School Board of Lee County, Florida**

**Balance Sheet - Governmental Fund**

**June 30, 2012**

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 125,954
Other assets	23,833
Total assets	<u>\$ 149,787</u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	<u>\$ 34,621</u>
Total liabilities	<u>34,621</u>
<b>FUND BALANCES</b>	
Nonspendable:	
Deposits	2,894
Prepaid expenses	20,940
Spendable:	
Unassigned	<u>91,332</u>
Total fund balances	<u>115,166</u>
Total liabilities and fund balances	<u>\$ 149,787</u>

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

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**

**A Charter School and Component Unit of the  
District School Board of Lee County, Florida**

**Reconciliation of the Governmental Fund Balance Sheet  
to the Statement of Net Assets**

**June 30, 2012**

<b>Total fund balances - governmental fund</b>	\$ 115,166
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

30,921
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<b>Total net assets - governmental activities</b>
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\$ 146,087
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The accompanying notes to financial statements are an integral part of this statement.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**

**A Charter School and Component Unit of the  
District School Board of Lee County, Florida**

**Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds**

**For the Year Ended June 30, 2012**

	<b>General Fund</b>	<b>Capital Outlay Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
State and local sources	\$ 1,190,469	\$ 104,378	\$ 1,294,847
Contributions and other revenue	76,168	-	76,168
Total revenues	<u>1,266,637</u>	<u>104,378</u>	<u>1,371,015</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	413,575	-	413,575
Pupil personnel services	86,763	-	86,763
Instructional staff training	8,927	-	8,927
Instructional related technology	17,680	-	17,680
Board	31,857	-	31,857
General administration	237,636	-	237,636
School administration	263,799	-	263,799
Facilities acquisition and construction	1,287	-	1,287
Transportation	18,235	-	18,235
Operation of plant	64,926	104,378	169,304
Maintenace of plant	2,637	-	2,637
Capital Outlay	41,791	-	41,791
Total expenditures	<u>1,189,113</u>	<u>104,378</u>	<u>1,293,491</u>
Net changes in fund balances	77,524	-	77,524
Fund balances at beginning of year	<u>37,642</u>	<u>-</u>	<u>37,642</u>
Fund balances at end of year	<u><u>\$ 115,166</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 115,166</u></u>

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

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**

**A Charter School and Component Unit of the  
District School Board of Lee County, Florida**

**Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds  
to the Statement of Activities**

**For the Year Ended June 30, 2012**

<b>Net changes in fund balance - total governmental funds</b>	<b>\$ 77,524</b>
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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.

19,716
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<b>Change in net assets of governmental activities</b>
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<u><u>\$ 97,240</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**1. DESCRIPTION OF SCHOOL AND REPORTING ENTITY**

City of Palms Charter High School, Inc. (the "School") 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 School contracts with Consulting and Professional Assistance, Inc. ("CPA's") for management of day-to-day operations. See Note 7. The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Lee County, Florida (the "District"). The current charter contract was renewed on June 21, 2011 for the five years beginning July 1, 2011 through June 30, 2016. This contract may be renewed by mutual written agreement between the School and the District. At the end of the term of the charter contract, the District may choose not to renew the agreement under grounds specified in the charter contract. In this case, the District is required to notify the School in writing at least 90 days prior to the charter contract's expiration. During the term of the charter, the District may also terminate the charter contract if good cause is shown. In the event of termination of the charter contract, any property purchased by the School with public funds and any unencumbered public funds, except capital outlay funds, revert back to the District. Any unencumbered capital outlay funds revert back to the Florida Department of Education to be redistributed among eligible charter schools. The School is considered a component unit of the District and meets the definition of a governmental entity under the Governmental Accounting Standards Board ("GASB") accounting guidance; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

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

The School operates under a self-appointing, five-member Board of Directors (the "Board"). During fiscal year 2011, the School had one instructional/support facility, which was leased by WHLS. The facility was staffed with teaching personnel employed by WHLS. During fiscal year 2012, the School moved to a new location leased directly by the Board. The facility was staffed with teaching personnel employed directly by the Board.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Basis of Presentation

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.



**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
*(Continued)*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Basis of Presentation *(continued)*

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

The government-wide financial statements of the School consist of governmental activities. The School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in individual funds based on the purpose for which they are 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.
- Capital Projects Fund - to account for the proceeds of capital outlay funds provided to charter schools pursuant to Florida Statutes, Section 1013.62.

For purposes of these statements, the general and capital projects funds constitute major funds.

Measurement Focus and 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 are recognized when earned and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within sixty days of the end of the fiscal year. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
*(Continued)*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Budgetary Basis of Accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level.

Cash and Cash Equivalents

All cash received by the School is maintained in a demand deposit account. For purposes of presentation on the Statement of Net Assets and the Balance Sheet – Governmental Fund, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

Under current regulations, non-interest bearing cash deposits at FDIC-insured institutions are fully insured through December 31, 2012. All cash and cash equivalent accounts held by the School are non-interest bearing and therefore, fully insured by the FDIC as of June 30, 2012.

Revenue Sources

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent students and related data to the District.

Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent students and related data to the Florida Department of Education ("FDOE") for funding through the FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. The District receives a 5% administrative fee from the School, which is reflected as a general administration expense/expenditure in the accompanying Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

The School is eligible for charter school capital outlay funding. The amounts received under this program are based on the School's actual and projected student enrollment during the fiscal year. Funds received under this program may only be used for lawful capital outlay expenditures and, as such, any unexpended amounts are reflected as restricted net assets and restricted fund balance in the accompanying Statement of Net Assets and Balance Sheet – Governmental Fund, respectively.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
*(Continued)*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Capital Assets and Depreciation

Previous to fiscal year 2012, for purposes of recording capital assets, the School had a capitalization threshold of \$5,000 overall and a capitalization threshold of \$750 for federal expenditures. At the beginning of fiscal year 2012, the Board changed its capitalization threshold to \$1,000 overall and kept the capitalization threshold of \$750 for federal expenditures.

Capital assets are recorded on the accompanying Statement of Net Assets at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over five years for Furniture, Fixtures and Equipment, three years for Computer Software and over the remaining life of the lease for Leasehold Improvements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets consist of capital assets, net of accumulated depreciation and unrestricted net assets.

Fund Balance Spending Policy

The School's adopted spending policy is to spend from restricted fund balance first, followed by committed, assigned, then the unassigned fund balance. 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. There are no minimum fund balance requirements for any of the School's funds.

Income Taxes

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

The School 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.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
*(Continued)*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

The School 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 School 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 financial statements, as the School 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 School is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2008.

Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The School has adopted guidance that requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The School has evaluated subsequent events through September 4, 2012, which is the date the financial statements were available to be issued.

**3. OTHER CURRENT ASSETS**

Prepaid rent of \$17,070 represents the largest component in other current assets. The amount will be applied to rent for July 2012 and to rent in the final month of the lease in 2016. The balance is comprised of \$2,448 prepaid insurance and miscellaneous prepaid expenses in the amount of \$1,422.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
*(Continued)*

**4. CAPITAL ASSETS AND DEPRECIATION**

For the year ended June 30, 2012, the School's capital assets consisted of the following:

	Beginning Balance	Additions (Disposals)	Ending Balance
<b>Capital Assets Being Depreciated:</b>			
Furniture, Fixtures & Equipment	\$ 7,230	\$ 1,450	\$ 8,680
Computer Software	72,638	31,137	103,775
Leasehold Improvements	-	9,204	9,204
Total	\$ 79,868	\$ 41,791	\$ 121,659
<b>Less Accumulated Depreciation:</b>			
Furniture, Fixtures & Equipment	\$ (6,226)	\$ (1,487)	\$ (7,713)
Computer Software	(62,437)	(19,727)	(82,164)
Leasehold Improvements	-	(861)	(861)
Total	\$ (68,663)	\$ (22,075)	\$ (90,738)
<b>Net Capital Assets</b>	<b>\$ 11,205</b>	<b>\$ 19,716</b>	<b>\$ 30,921</b>

Depreciation expense of \$22,075 was allocated and charged to the listed function in the accompanying Statement of Activities.

Instruction	\$ 16,361
School Administration	4,853
Facilities Acquisition and Construction	861
Total	\$ 22,075

**CITY of PALMS CHARTER HIGH SCHOOL, Inc.**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
*(Continued)*

**5. SCHEDULE OF STATE AND LOCAL REVENUE SOURCES**

For the year ended June 30, 2012, state and local revenues were received from the District as follows:

Florida Education Finance Program	\$	741,841
Class Size Reduction		193,932
Capital Outlay Income		104,378
Discretionary millage		97,508
ESE Guaranteed Allocation		79,238
Supplemental Academic Instruction		41,162
Instructional Materials		16,077
Student Transportation		13,882
Safe Schools		3,890
Florida Teacher LEAD Program		1,887
Discretionary Lottery Funds		652
Certificate Exam Reimbursement		400
Total State and Local Revenue	\$	1,294,847

The administration fee paid to the District during the year ended June 30, 2012 totaled \$59,409. The fee is reflected as General Administration in the accompanying Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

**6. RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School is in compliance with coverage parameters dictated by the charter contract with the District. Significant policies include General Liability Insurance (\$1MM/occurrence; \$3MM/aggregate), Director and Officer Liability Insurance / School Leaders Error and Omission Policy (\$1MM/occurrence; \$3MM/aggregate), and Workers' Compensation Insurance.

**7. EDUCATIONAL MANAGEMENT PROVIDERS**

During the first five years of operation (2007-2011), the School contracted with WHLS of Florida, LLC ("WHLS") to be responsible and accountable to the School's Board of Directors for the administration and operation of the School. The School was required to pay WHLS a monthly continuing fee of 97% of the School's "Qualified Gross Revenues," as defined in the Management Agreement ("Agreement") as "...a revenues and income received by the School except for charitable contributions" and "WHLS shall receive 100% of any and all grants of funding or any kind generated by WHLS, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any." The continuing fee paid to WHLS was based on the previous month's qualified gross revenues less any fees the School was required to remit to the District. The continuing fee earned by WHLS for the year ended June 30, 2011 was \$1,443,722. WHLS was responsible for all costs incurred in providing the educational program at the School, which included but were not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

**CITY of PALMS CHARTER HIGH SCHOOL, Inc.**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
*(Continued)*

**7. EDUCATIONAL MANAGEMENT PROVIDERS** *(continued)*

In accordance with the Agreement, substantially all assets used to operate the School are owned by WHLS, other than those recorded as capital assets in the accompanying Statement of Net Assets. The Agreement contained provisions for the School to acquire all of the personal and real property relating to the operation of the School, free and clear of all liens or other encumbrances upon the end of the contract. Prior to the relocation of the School, WHLS removed any personal and real property relating to the operation of the School that belonged to them. Upon termination of the Agreement, both parties were satisfied no monies or property were owed by one to the other.

Beginning fiscal year 2012, the Board of Directors entered into a contract with Consulting and Professional Assistance, Inc. (CPA's) to provide business and educational oversight services to the School. The Board of Directors operates the School independently. CPA's works with the Principal to manage the School on a day-to-day basis. The Principal oversees academics and CPA's oversees all other operations. CPA's continuing fee is based upon 15% of gross revenues received from the District through the Florida Education Finance Program. The administration fee paid to the CPA's during the year ended June 30, 2012 totaled \$178,227. The fee is reflected as General Administration in the accompanying Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

**8. CONTINGENCIES**

Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts that may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.**

**A Charter School and Component Unit of the  
District School Board of Lee County, Florida**

**Required Supplementary Information**

**Budget Comparison Schedule - General Fund**

**For the Year Ended June 30, 2012**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
State and local sources	\$ 1,608,474	\$ 1,199,622	\$ 1,190,469	\$ (9,153)
Contributions and other revenue	-	-	76,168	76,168
<b>Total revenues</b>	<b>1,608,474</b>	<b>1,199,622</b>	<b>1,266,637</b>	<b>67,015</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	594,625	379,000	413,575	34,575
Pupil personnel support	80,000	45,000	86,763	41,763
Instructional staff training	15,000	3,000	8,927	5,927
Instructional related technology	185,888	15,000	17,680	2,680
Board	45,000	64,000	31,857	(32,143)
General administration	114,643	261,000	237,636	(23,364)
School administration	250,696	284,000	263,799	(20,201)
Facilities acquisition and construction	172,622	15,622	1,287	(14,335)
Transportation	36,000	21,000	18,235	(2,765)
Operation of plant	63,250	102,000	154,038	52,038
Maintenance of plant	50,750	10,000	2,637	(7,363)
Capital Outlay	-	-	41,791	41,791
<b>Total expenditures</b>	<b>1,608,474</b>	<b>1,199,622</b>	<b>1,278,225</b>	<b>78,603</b>
<b>Net changes in fund balances</b>	<b>-</b>	<b>-</b>	<b>(11,588)</b>	<b>(11,588)</b>
Fund balances at beginning of year	37,642	37,642	37,642	37,642
Fund balances at end of year	\$ 37,642	\$ 37,642	\$ 26,054	\$ 26,054

See report of independent auditors.





**Report of Independent Auditors on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of City of Palms Charter High School, Inc., a Charter School  
and Component Unit of the District School Board of Lee County, Florida

We have audited the financial statements of the governmental activities and its major funds of City of Palms Charter High School, Inc. (the "School"), a charter school and component unit of the District School Board of Lee County, Florida, as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*MC CRADY, HESS + RUTH*

Maitland, Florida  
September 4, 2012

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



To the Board of Directors of City of Palms Charter High School, Inc., a Charter School  
and Component Unit of the District School Board of Lee County, Florida

We have audited the financial statements of the governmental activities and its major funds of City of Palms Charter High School, Inc. (the "School") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 4, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in those reports and schedules, which are dated September 4, 2012, should be considered in conjunction with this management letter.

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

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings and recommendations made in the preceding annual financial audit report.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.

- Section 10.854(1)(e)6., Rules of the Auditor General, requires the name or official title of the school. The official title of the School is City of Palms Charter High School, Inc.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition met. During the course of our audit, nothing came to our attention to indicate that the School had met any of the conditions described in Section 218.503(1), Florida Statutes (“the conditions”). However, in planning and performing our audit, we considered whether the School had met any of the conditions as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion as to whether the School had met any of the conditions. Accordingly, we do not express an opinion as to whether the School had met any of the conditions.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures as of June 30, 2012, which included calculation and analysis of certain financial indicators we considered relevant to the School. Our financial condition assessment procedures did not include the use of benchmarks. It is management’s responsibility to monitor the School’s financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management.

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

*MC CRADY, HESS + RUTH*

Maitland, Florida  
September 4, 2012