

**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
AUDITORS' REPORTS THEREON**

**AS OF AND FOR THE YEAR ENDED
JUNE 30, 2014**

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**CITY OF PALMS CHARTER HIGH SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014. 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, 2014 represents the eighth 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. This fiscal year represents the third year of operations under direct control of the governing board with Consulting + Professional Assistance, Inc. acting as the local educational service provider.

Financial Highlights

The assets of the School exceeded its liabilities at the close of the fiscal year by \$646,650 (net position). This is an increase of \$334,425 from the prior year when assets of the School exceeded its liabilities by \$312,225. This increase is related to an increase in revenues from operations based upon increased enrollment.

Revenues from state and local sources increased approximately 24.5% (\$361,405). Other revenue remained the same represented by \$4,000 received from contributions.

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 Position" 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 Position" 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. The net position – the difference between the School's assets and liabilities – is one way to measure the School's financial position. Over time, increases or decreases in the School's net position is 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, 2014**

(continued)

GOVERNMENT-WIDE ANALYSIS OF THE SCHOOL

Net Position

The table below provides a comparative summary of the School's net position for fiscal years 2014 and 2013.

	Net Position		Increase (Decrease)
	<u>2014</u>	<u>2013</u>	<u>(Decrease)</u>
Assets			
Current Assets	\$ 628,009	\$ 303,644	\$ 324,365
Capital Assets, net	<u>54,269</u>	<u>37,066</u>	<u>17,203</u>
Total Assets	<u>\$ 682,278</u>	<u>\$ 340,710</u>	<u>\$ 341,568</u>
Liabilities			
Current Liabilities	<u>\$ 35,628</u>	<u>\$ 28,485</u>	<u>\$ 7,143</u>
Net Position			
Invested in Capital Assets	\$ 54,269	\$ 37,066	\$ 17,203
Restricted for:			
Capital Projects	71,263	659	70,604
Unrestricted	<u>521,118</u>	<u>274,500</u>	<u>246,618</u>
Total Net Position	<u>\$ 646,650</u>	<u>\$ 312,225</u>	<u>\$ 334,425</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 purchasing computer hardware to be placed in service in the next fiscal year. Unrestricted net position increased as a direct result of the increase in cash related to current year revenues exceeding expenditures.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

(continued)

Change in Net Position

The table below shows the comparative summary of changes in net position, revenues and expenses for fiscal years 2014 and 2013.

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Revenues			
State and Local Sources	\$ 1,842,633	\$ 1,481,227	\$ 361,406
Other Revenue	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Total Revenues	<u>1,846,633</u>	<u>1,485,227</u>	<u>361,406</u>
Expenses			
Instruction	445,255	387,405	57,850
Instructional support services	165,822	108,568	57,254
Board	28,217	22,942	5,275
School administration	668,833	587,520	81,313
Pupil transportation services	27,682	45,617	(17,935)
Operation of plant	173,603	159,303	14,300
Maintenance of plant	<u>2,796</u>	<u>7,734</u>	<u>(4,938)</u>
Total Expenses	<u>1,512,208</u>	<u>1,319,089</u>	<u>193,119</u>
Change in Net Position	<u>\$ 334,425</u>	<u>\$ 166,138</u>	<u>\$ 168,287</u>

Revenues from state and local sources increased primarily due to the School's higher enrollment during the current fiscal year than in the previous fiscal year. Average enrollment increased from 242 in 2013 to 275 in 2014. While revenues increased over 24%, total expenses increased by only 15% over the prior year. Certain expenditures recorded in 2013 were reclassified for report purposes only to maintain comparative consistency. The net increase in revenues over expenses in fiscal year 2014 was primarily due to careful fiscal oversight of expenses throughout the year by the Board of Directors and the educational service provider Consulting + Professional Assistance, Inc., contracted to manage the day to day operations of the School.

**CITY OF PALMS CHARTER HIGH SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

(continued)

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

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 \$474,904 – a 93% increase over the prior year.

General Fund 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 third 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 in fiscal year 2011-12. The School's final general fund budget estimated \$263,000 carryover for the following year. Actual results produced a carryover of \$246,618. Net revenues from operations fell short of budgeted outcomes by \$16,382. Actual revenues exceeded estimates by nearly \$5,000 while total operating expenses exceeded estimates by approximately \$21,000.

Capital Assets

At the end of fiscal year 2014, the School had \$54,269 invested in capital assets. The capitalization threshold for classification of long-term assets is \$1,000. The table below shows comparative balances of capital assets for fiscal years 2014 and 2013.

Capital Assets			
(Net of Depreciation / Amortization)			
	2014	2013	Increase (Decrease)
Furniture, fixtures & equipment	\$ 32,550	\$ 2,034	\$ 30,516
Computer software	16,533	28,773	(12,240)
Leasehold improvements	5,186	6,259	(1,073)
Total	\$ 54,269	\$ 37,066	\$ 17,203

For more information of capital assets, see Note 5 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, 2014**

(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.

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. The School has operated successfully while steadily increasing fund balances since working with CPA'S.

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.



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CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report 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. and Component Unit of the District School Board of Lee County, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining funds for the City of Palms Charter High School and Component Unit of the District School Board of Lee County, Florida, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of School's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

McCRA DY HESS

Maitland, Florida
August 28, 2014

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 Position

June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 563,515
Accounts receivable	18,280
Other assets	46,214
Capital assets:	
Leasehold improvements	10,804
Furniture, fixtures and equipment	41,230
Computer software	111,717
Less accumulated depreciation	<u>(109,482)</u>
Total capital assets, net	<u>54,269</u>
 Total assets	 <u><u>\$ 682,278</u></u>
LIABILITIES	
Accounts payable and accrued expenses	<u>\$ 35,628</u>
 Total liabilities	 <u>35,628</u>
NET POSITION	
Invested in capital assets, net of related debt	54,269
Restricted for:	
Capital projects	71,263
Unrestricted	<u>521,118</u>
 Total net position	 <u><u>\$ 646,650</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, 2014

	Program Specific Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Instruction	\$ 445,255	\$ -	\$ -	\$ -	\$ (445,255)	\$ (445,255)
Instructional support services	165,822	-	-	-	(165,822)	(165,822)
Board	28,217	-	-	-	(28,217)	(28,217)
School administration	668,833	-	-	-	(668,833)	(668,833)
Transportation	27,682	-	-	-	(27,682)	(27,682)
Operation of plant	173,603	-	-	101,509	(72,094)	(72,094)
Maintenance of Plant	<u>2,796</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,796)</u>	<u>(2,796)</u>
Total primary government	\$ 1,512,208	\$ -	\$ -	\$ 101,509	(1,410,699)	(1,410,699)
General revenues:						
State and local sources					\$ 1,741,124	\$ 1,741,124
Contributions					<u>4,000</u>	<u>4,000</u>
Total general revenues					<u>1,745,124</u>	<u>1,745,124</u>
Changes in net position					334,425	334,425
Net position at beginning of year					<u>312,225</u>	<u>312,225</u>
Net position at end of year					<u>\$ 646,650</u>	<u>\$ 646,650</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**

Balance Sheet - Governmental Fund

June 30, 2014

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 492,252	\$ 71,263	\$ 563,515
Accounts receivable	18,280	-	18,280
Other assets	<u>46,214</u>	<u>-</u>	<u>46,214</u>
Total assets	<u><u>\$ 556,746</u></u>	<u><u>\$ 71,263</u></u>	<u><u>\$ 628,009</u></u>
LIABILITIES			
Accounts payable and accrued expenses	<u>\$ 35,628</u>	<u>\$ -</u>	<u>\$ 35,628</u>
Total liabilities	<u>35,628</u>	<u>-</u>	<u>35,628</u>
FUND BALANCE			
Nonspendable:			
Deposits	3,763	-	3,763
Prepaid expenses	42,451	-	42,451
Restricted:			
Capital Projects	-	71,263	71,263
Spendable:			
Unassigned	<u>474,904</u>	<u>-</u>	<u>474,904</u>
Total fund balance	<u>521,118</u>	<u>71,263</u>	<u>592,381</u>
Total liabilities and fund balance	<u><u>\$ 556,746</u></u>	<u><u>\$ 71,263</u></u>	<u><u>\$ 628,009</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 Governmental Fund Balance Sheet
to the Statement of Net Position**

June 30, 2014

Total fund balance - governmental fund \$ 592,381

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore; are not reported as assets in the governmental funds. The cost of the assets are \$163,751 and the accumulated depreciation is \$109,482.

54,269

Total net position - governmental activities

\$ 646,650

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, 2014

	General Fund	Capital Projects Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
State and local sources	\$ 1,670,520	\$ 172,113	\$ 1,842,633
Contributions and other revenue	<u>4,000</u>	<u>-</u>	<u>4,000</u>
Total revenues	<u>1,674,520</u>	<u>172,113</u>	<u>1,846,633</u>
EXPENDITURES			
Current:			
Instruction	436,411	-	436,411
Instructional support services	165,822	-	165,822
Board	28,217	-	28,217
School administration	664,954	-	664,954
Transportation	27,682	-	27,682
Operation of plant	69,420	101,509	170,929
Maintenance of plant	2,796	-	2,796
Capital outlay	<u>32,600</u>	<u>-</u>	<u>32,600</u>
Total expenditures	<u>1,427,902</u>	<u>101,509</u>	<u>1,529,411</u>
Net changes in fund balances	246,618	70,604	317,222
Fund balances at beginning of year	<u>274,500</u>	<u>659</u>	<u>275,159</u>
Fund balances at end of year	<u>\$ 521,118</u>	<u>\$ 71,263</u>	<u>\$ 592,381</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, 2014

Net changes in fund balance - total governmental funds \$ 317,222

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$32,600) exceed depreciation expense (\$15,397) in the current period.

17,203

Change in net position of governmental activities \$ 334,425

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**

Notes to Financial Statements

For the Year Ended June 30, 2014

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 8. 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.

CITY OF PALMS CHARTER HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

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 of 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.

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 Position 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 – is the School's primary operating fund that accounts 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.

CITY OF PALMS CHARTER HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

Basis of Accounting

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

The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses/expenditures are recognized when a liability is incurred, regardless of the timing the related cash flows take place.

The governmental funds basic financial statements are reported using the modified accrual basis of accounting. Under this method, revenues are recognized when they become measurable and available. Revenues are considered to be available when they are collectable within a current period. The School considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenues is recognized at the time the expenditure is made.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from the acquisition of long-term debt are reported as other financing sources.

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 Position 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, deposit accounts are insured by the FDIC up to \$250,000 per insured institution. The school currently holds its deposit accounts at one institution; these accounts total \$563,514. Approximately \$313,500 of these deposits are uninsured by the FDIC. The School does not expect any losses associated with these accounts.

Capital Assets and Depreciation

The School's capitalization threshold is \$1,000 overall and \$750 for federal expenditures.

Capital assets are recorded on the accompanying Statement of Net Position at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over three years for furniture, fixtures and equipment, three years for computer software and over the remaining life of the lease for leasehold Improvements.

CITY OF PALMS CHARTER HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

Recently Issued Accounting Principles

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components; assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of the Statement are effective for financial statements for periods beginning after December 15, 2011.

Net Position and Fund Balance Classifications

Government-Wide financial statements

Net Position is classified and reported in three components:

- Investment in capital assets, net of related debt – consists of capital asset net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.
- Restricted – consist of amounts with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments.
- Unrestricted – all other amounts that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund financial statements

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned). All nonspendable fund balances at year end relate to assets that are in not spendable form.
- Restricted – fund balance category includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance classification includes amounts that are intended to be used by the School’s management for specific purposes but do not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

CITY OF PALMS CHARTER HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

This statement also clarifies the definition of the special revenue fund to denote that the special revenue may be used to account for the proceeds of specific revenue sources (other than trust for individual, private organizations or other governmental or for major capital projects) legally restricted to expenditures for specified purposes.

Order of Fund Balance Spending Policy

The School's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Any remaining fund balance amounts for the non-general funds are classified as restricted fund balance. It is possible for non-general funds to be classified as restricted fund balance. It is also possible for the non-general funds to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

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 administrative fee is calculated on the FEFP revenue up to 250 students.

The basic amount of funding through the FEFP under Section 1011.62 is calculated based on (1) unweighted FTE, multiplied by (2) the cost factor for each program multiplied by (3) the base students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2., Florida Statutes. For the year ended June 30, 2014, the School reported 274.41 unweighted FTE

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 Position and Balance Sheet – Governmental Fund, respectively.

CITY OF PALMS CHARTER HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

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.

The School regularly 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. There are three tax years, 2011, 2012 and 2013, open for examination by the tax authorities.

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 August 28, 2014, which is the date the financial statements were available to be issued.

3. ACCOUNTS RECEIVABLE

In March 2014, the Board of Directors of City of Palms Charter High School, Inc. received approval from the School District of Lee County to operate a second school. Palm Acres Charter High School opened on August 18, 2014 in Lehigh Acres Florida. At June 30, 2014, eighty-six percent – 86% (\$15,780) of total accounts receivable of \$18,280 are represented by expenses paid on behalf of the new school. The other fifteen percent - 15% (\$2,500) is comprised of \$2,000 receivable as reimbursement from the District for professional development coursework and \$500 paid with the draft submission of the Board’s application to operate a third school, Northern Palms Charter High School in the District.

CITY OF PALMS CHARTER HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

4. OTHER CURRENT ASSETS

Prepaid conference expenses of \$12,450 and prepaid software expenses of \$11,211 represent over 51% of other current assets which total \$46,214. Prepaid rent for the final month of the lease in 2016 represents 21% (\$9,675) of the balance. Another 20% (\$9,333) is comprised of security deposits and prepaid gift cards. The final 8% (\$3,545) represents prepaid dues, advertising and legal expense.

5. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2014, the School's capital assets consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:			
Furniture, fixtures and equipment	\$ 10,230	\$ 31,000	\$ 41,230
Computer software	111,717	-	111,717
Leasehold improvements	<u>9,204</u>	<u>1,600</u>	<u>10,804</u>
 Total	 <u>\$ 131,151</u>	 <u>\$ 32,600</u>	 <u>\$ 163,751</u>
 Less Accumulated Depreciation:			
Furniture, fixtures and equipment	\$ (8,196)	\$ (484)	\$ (8,680)
Computer software	(82,944)	(12,240)	(95,184)
Leasehold improvements	<u>(2,945)</u>	<u>(2,673)</u>	<u>(5,618)</u>
 Total	 <u>\$ (94,085)</u>	 <u>\$ (15,397)</u>	 <u>\$ (109,482)</u>
 Net Capital Assets	 <u>\$ 37,066</u>	 <u>\$ 17,203</u>	 <u>\$ 54,269</u>

Depreciation expense of \$15,397 was allocated and charged to the listed function in the accompanying Statement of Activities.

Instruction	\$ 8,844
School administration	3,880
Operation of plant	<u>2,673</u>
Total	<u>\$ 15,397</u>

CITY OF PALMS CHARTER HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

6. SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

For the year ended June 30, 2014, state and local revenues were received from the District as follows:

Florida Education Finance Program	\$ 1,086,446
Class size reduction	260,700
Capital outlay	172,113
Discretionary millage	129,475
Supplemental academic instruction	57,945
Teacher salary allocation	47,215
ESE Guaranteed Allocation	46,511
Instructional materials	21,749
Student transportation	13,881
Safe schools	5,238
Discretionary lottery	2,658
Teacher lead	2,599
State proration	<u>(3,897)</u>
Total State and Local Revenue	<u>\$ 1,842,633</u>

The administration fee paid to the District during the year ended June 30, 2013 totaled \$75,955. The fee is reflected as school administration in the accompanying Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

7. 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.

8. EDUCATIONAL MANAGEMENT PROVIDERS

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 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, 2014 totaled \$250,112. 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.

CITY OF PALMS CHARTER HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

9. CONTINGENCIES

Grants

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

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

Legal matters

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

Lease commitments

Effective August 1, 2011, the School entered into a 5 year lease agreement for its facility under a noncancelable operating lease. The lease expires July 31, 2016. The lease offers 1 renewal term options for 5 years per term. The lease requires the School to pay insurance and other operating cost. Total expense in connection with the facility lease amounted to \$101,509 for the year ended June 30, 2014.

Future minimum payments under this lease agreement are as follows:

Year ended June 30:

2015	\$ 74,356
2016	6,211
Total lease payments	<u>\$ 80,567</u>

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

Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
State and local sources	\$ 1,500,000	\$ 1,670,000	\$ 1,670,520	\$ 519
Contributions	-	-	4,000	4,000
Total revenues	<u>1,500,000</u>	<u>1,670,000</u>	<u>1,674,520</u>	<u>4,519</u>
EXPENDITURES				
Current:				
Instruction	475,000	430,000	436,411	(15,255)
Instructional support services	182,000	181,000	165,822	15,178
Board	29,000	20,000	28,217	(8,217)
School administration	673,000	666,500	664,954	(2,333)
Pupil transportation services	24,000	30,000	27,682	2,318
Operation of plant	87,000	75,500	69,420	3,407
Maintenance of Plant	12,000	4,000	2,796	1,204
Capital outlay	-	-	32,600	(17,203)
Total expenditures	<u>1,482,000</u>	<u>1,407,000</u>	<u>1,427,902</u>	<u>(20,901)</u>
Excess (deficiency) of revenues over expenditures	18,000	263,000	246,618	(16,382)
Fund balances at beginning of year	<u>274,500</u>	<u>274,500</u>	<u>274,500</u>	<u>-</u>
Fund balances at end of year	<u>\$ 292,500</u>	<u>\$ 537,500</u>	<u>\$ 521,118</u>	<u>\$ (16,382)</u>

See report of independent auditors.



M^cCRADY | HESS
CERTIFIED PUBLIC ACCOUNTANTS

**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, in accordance with the 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, the financial statements of the governmental activities and each major fund for the 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, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of School's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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*.

Finding 2014-1:Employment Files: Florida Statutes Section 1002.33(12)(g) states that all instructional, non-instructional employees and board members must undergo background screening. During our audit procedures, we noted that fingerprints were timely taken by an authorized law enforcement agency but the documentation of the results were not always returned to the school in a timely manner. The school does rely on the school district to provide the results. Additionally, a few items required to be documented in the personnel file were not available during fieldwork. We recommend that the school review policies and procedures surrounding personnel files when hiring new personnel.

The School's response to the finding identified in our audit is included in the Written Statement of Explanation or Rebuttal on page 30. We did not audit the School's response and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

McCRA DY HESS

Maitland, Florida
August 28, 2014

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

Report on the Financial Statements

We have audited the financial statements of City of Palms Charter High School, Inc. (the "School") as of and for the fiscal year ended June 30, 2014, and have issued our report thereon dated August 28, 2014.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other Reporting Required by Government Auditing Standards

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards.

Prior Audit Findings

Section 10.854(1)(e)1., Rules of the Auditor General, required 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 or recommendations made in the preceding annual financial audit report.

Financial Condition

Sections 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require that we apply appropriate procedures to determine 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(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, require that we apply financial condition assessment procedures for the School. 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 same.

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we apply appropriate procedures to determine whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

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 noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. Please see finding 2014-01 on page 26 and management's response on page 30..

Section 10.854(1)(e)5, Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is City of Palms Charter High School, Inc.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, the Lee County School Board, Federal and other granting agencies, the Board of Directors, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

MC CRADY HESS

Maitland, Florida
August 28, 2014

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CITY OF PALMS

CHARTER HIGH SCHOOL



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RESPONSE to Finding 2014-1: Employment Files

In conjunction with the opening of a new school anticipated for Fall 2014, City of Palms Charter High School, Inc. began advertising and hiring new staff at the Fort Myers location so they could be trained according to our program before the start of the 2014-15 school year. Prior to Spring 2014, the staff of the School has remained nearly constant for over seven years. We have reviewed hiring and fingerprinting procedures with appropriate personnel at the School District of Lee County. As we continue to staff the current and new schools, documented procedures and checklists have been established so background screening information will be available on a timely basis and to be sure that all employment documentation is maintained in personnel files.

Amy Roberson