



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

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

JUNE 30, 2007

RECEIVED

SEP 17 2007

AUDITOR GENERAL

CONTENTS

	<u>Page</u>
Management's Discussion and Analysis	1 – 7
Report of Independent Auditors on Basic Financial Statements and Supplementary Information	8 – 9
Basic Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16 – 24
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	25
Budgetary Comparison Schedule – Special Revenue Fund	26
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27 – 28
Additional Information Required by Rules of the Florida Auditor General, Chapter 10.850, <i>Audits of Charter Schools and Similar Entities:</i>	
Management Letter	29 – 31

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Janie Howard Wilson Elementary School (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the School's financial statements, which follow this section.

Lake Wales Charter Schools, Inc. operates a system of five public charter schools in the Lake Wales, Florida area, and the School is a part of that system. In addition, a central administrative office provides certain management and administrative services to the School. Even though there is only one corporate entity, each of the five public charter schools and the central administrative office function as separate entities.

FINANCIAL HIGHLIGHTS

- The School's net assets increased compared to the prior year.
- For the fiscal year ended June 30, 2007, the School's revenues exceeded expenses by \$148,677. This represents a decline from the prior year when revenues exceeded expenses by \$179,477.
- Overall, revenues increased by approximately \$223,000, which represents a 6% increase from the prior year.
- Overall, expenses increased by approximately \$254,000, which represents a 7% increase from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.
 - The *governmental funds* financial statements tell how general school services were financed in the short term, as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the independent auditor’s report on compliance and internal control required by *Government Auditing Standards*, as well as the management letter required by the Rules of the Florida Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

The following table summarizes the major features of the School’s financial statements, including the portion of the School they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

	Government-wide Statements	Fund Statements Governmental Funds
Scope	Entire School	The activities of the School that are not proprietary or fiduciary
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Financial Statements

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

The two government-wide financial statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – is one way to measure the School's financial health or position. Over time, increases or decreases in the School's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the School, one needs to consider additional non-financial factors such as changes in the School's student base.

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

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program (FEFP) and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

Fund Financial Statements

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

The School currently has one type of fund:

- *Governmental funds* – most of the School's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the differences between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The School's combined net assets at June 30, 2007 and 2006 are summarized as follows – see table below.

	Governmental Activities		Increase
	2006	2007	(Decrease)
Current and other assets	\$ 381,948	\$ 377,315	-1%
Capital assets, net	163,661	134,009	-18%
Total assets	<u>545,609</u>	<u>511,324</u>	<u>-6%</u>
Current and other liabilities	<u>307,788</u>	<u>124,826</u>	<u>-59%</u>
Total liabilities	<u>307,788</u>	<u>124,826</u>	<u>-59%</u>
Net assets:			
Invested in capital assets	163,661	134,009	-18%
Restricted	-	28,779	100%
Unrestricted	<u>74,160</u>	<u>223,710</u>	<u>202%</u>
Total net assets	<u>\$ 237,821</u>	<u>\$ 386,498</u>	<u>63%</u>

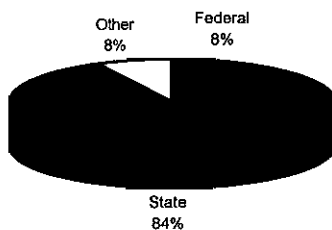
Net capital assets decreased due to depreciation expense in excess of capital asset purchases. Current and other liabilities decreased as a result of a decrease in accounts payable and accrued expenses due to the timing of payments at year-end. This decrease was offset by an increase in compensated absences payable at year-end, which was the result of additional employees becoming tenured and accruing leave benefits during fiscal 2007. The fluctuation in net assets from the prior fiscal year is due to the current year operating surplus.

Change in Net Assets

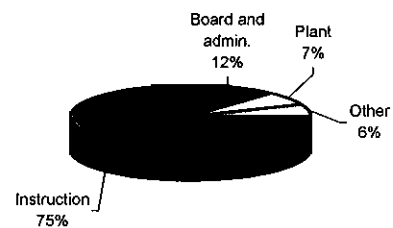
The School's total revenues increased by 6% to \$4,186,908, and total cost of all programs and services increased by 7% to \$4,038,231 – see table below.

	Governmental Activities		Increase (Decrease)
	2006	2007	
Revenues:			
Federal sources passed through local school district	\$ 550,259	\$ 337,876	-39%
State and local sources	3,227,469	3,529,373	9%
Contributions and other revenue	185,898	319,659	72%
Total revenues	3,963,626	4,186,908	6%
Expenses:			
Instruction	2,367,777	2,669,805	13%
Pupil personnel services	198,572	117,381	-41%
Instructional media	88,673	77,211	-13%
Instruction and curriculum development	187,915	158,215	-16%
Instructional staff training	64,687	5,585	-91%
Board	12,000	13,750	15%
School administration	386,750	454,946	18%
Fiscal services	134,583	149,841	11%
Pupil transportation	88,799	96,779	9%
Operation of plant	254,393	282,385	11%
Community services	-	12,333	100%
Total expenses	3,784,149	4,038,231	7%
Change in net assets	\$ 179,477	\$ 148,677	-17%

2007 Revenues



2007 Expenses



The decrease in revenues from federal sources was primarily due to decreased expenditures of start-up grant funds in the current year. Charter schools are eligible for such federal funds in their first two years. Revenues from state and local sources constitute 84% of total revenues. The increase in state and local revenues was due to an increase in FEFP funds and higher class size reduction funds in 2007. Contributions and other revenue increased due to additional revenues generated by the School's pre-kindergarten program.

Total instruction and instruction-related services increased by approximately 4% during fiscal 2007, primarily as a result of staff pay increases and the increase in related benefits. In addition, depreciation expense allocated to the instruction function increased during fiscal 2007 as a result of a full year of expense being charged on assets acquired near the end of the prior year. School administration expenses increased due to the payout of accrued time, additional contractual duties and internal account activity not previously reported and not budgeted for in the prior year. Fiscal services expenses increased due to an increase in the administration fee paid to the School Board, which is based on FEFP revenue. Operation of plant expenses increased due to insurance, higher energy cost and contracted service for security personnel.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental funds reported a combined fund balance of \$357,729, which was above the prior year. Both revenues and expenditures increased overall for the same reasons described above.

General and Special Revenue Fund Budgetary Highlights

Over the course of the year, the School revised its budget. The budget amendments were performed primarily to reflect revised student enrollment throughout the year and to account for changes in federal program revenues and related expenditures.

For the year ended June 30, 2007, actual general fund revenues were approximately \$326,000 above the budgeted amounts, primarily due to the fact that internal account revenues are not budgeted. Actual general fund expenditures were approximately \$237,000 above the budgeted amounts, which represents an approximate 7% budget variance. This was primarily due to the fact that internal account expenditures are not budgeted.

For the year ended June 30, 2007, actual special revenue fund revenues and expenditures were approximately \$119,000 below the budgeted amounts, primarily due to less federal funds expended than expected. Revenues under the federal grants are only recognized to the extent that eligible expenditures have been incurred.

CAPITAL ASSET ADMINISTRATION

At the end of fiscal 2007, the School had invested \$244,275 in capital assets, consisting primarily of computers and other electronic equipment.

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

- Promethian boards – \$16,179
- Playground equipment – \$16,000
- Scanner and microprojector – \$2,400

The School's fiscal year 2008 capital budget does not include significant spending related to capital projects. More detailed information about the School's capital assets is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following economic indicators were taken into account when adopting the general fund budget for fiscal year 2008:

- Projected increase in state educational funding
- Projected salary increases
- Increases in the cost of benefits

Amounts available for appropriation in the general fund are approximately \$3,769,519, an approximate 2% decrease from the actual 2007 amount of \$3,849,032. While student enrollment is expected to be stable, this decrease is primarily due to the fact that contributions and other revenue are not budgeted.

Budgeted general fund expenditures are expected to increase to \$3,737,174, or 3%, from the fiscal 2007 actual figure of \$3,645,757. The School has added no major new programs to the fiscal 2008 budget.

If these estimates are realized, the School's budgetary general fund balance is expected to increase by the close of fiscal 2008.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 151 East Central Avenue, Lake Wales, Florida 33853.



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

To the Board of Directors of Lake Wales Charter Schools, Inc. –
Janie Howard Wilson Elementary School

We have audited the accompanying financial statements of the governmental activities and each major fund of Lake Wales Charter Schools, Inc. – Janie Howard Wilson Elementary School (the “School”) as of and for the year ended June 30, 2007, which collectively comprise the School’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lake Wales Charter Schools, Inc. – Janie Howard Wilson Elementary School at June 30, 2007, 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 August 27, 2007 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.

The management's discussion and analysis on pages 1 – 7 and the budgetary comparison schedules on pages 25 – 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BKHM, P.A.

Winter Park, Florida
August 27, 2007

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities
ASSETS	
Accounts receivable	\$ 129,596
Due from central administrative office	247,719
Capital assets:	
Furniture, fixtures and equipment	244,275
Less accumulated depreciation	(110,266)
Total capital assets, net	134,009
Total assets	\$ 511,324
LIABILITIES	
Accounts payable and accrued expenses	\$ 11,675
Deferred revenue	7,911
Compensated absences payable	105,240
Total liabilities	124,826
NET ASSETS	
Invested in capital assets	134,009
Restricted for:	
Purchase of computer hardware and software	28,779
Unrestricted	223,710
Total net assets	386,498
Total liabilities and net assets	\$ 511,324

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

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
	Expenses	Total	Total	Total
Governmental activities:				
Instruction	\$ 2,669,805	\$ 258,158	\$ -	\$ (2,411,647)
Pupil personnel services	117,381	35,992	-	(81,389)
Instructional media	77,211	23,808	-	(53,403)
Instruction and curriculum development	158,215	-	-	(158,215)
Instructional staff training	5,585	611	-	(4,974)
Board	13,750	-	-	(13,750)
School administration	454,946	-	-	(454,946)
Fiscal services	149,841	1,210	-	(148,631)
Pupil transportation	96,779	-	-	(96,779)
Operation of plant	282,385	-	-	(282,385)
Community services	12,333	-	-	(12,333)
Total primary government	<u>\$ 4,038,231</u>	<u>\$ 319,779</u>	<u>\$ -</u>	<u>(3,718,452)</u>
General revenues:				
Federal sources				18,097
State and local sources				3,529,373
Contributions and other revenue				319,659
Total general revenues				<u>3,867,129</u>
Change in net assets				148,677
Net assets at beginning of year				237,821
Net assets at end of year				<u>\$ 386,498</u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Accounts receivable	\$ 92,825	\$ 36,771	\$ 129,596
Due from central administrative office	<u>276,579</u>	<u>-</u>	<u>276,579</u>
Total assets	<u><u>\$ 369,404</u></u>	<u><u>\$ 36,771</u></u>	<u><u>\$ 406,175</u></u>
 LIABILITIES AND FUND BALANCES			
Accounts payable and accrued expenses	\$ 11,675	\$ -	\$ 11,675
Deferred revenue	-	7,911	7,911
Due to central administrative office	<u>-</u>	<u>28,860</u>	<u>28,860</u>
Total liabilities	<u>11,675</u>	<u>36,771</u>	<u>48,446</u>
 Fund balances:			
Reserved for:			
Purchase of computer hardware and software	28,779	-	28,779
Unreserved:			
Designated for School-based student activity organizations	16,647	-	16,647
Undesignated	<u>312,303</u>	<u>-</u>	<u>312,303</u>
Total fund balances	<u>357,729</u>	<u>-</u>	<u>357,729</u>
Total liabilities and fund balances	<u><u>\$ 369,404</u></u>	<u><u>\$ 36,771</u></u>	<u><u>\$ 406,175</u></u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

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

JUNE 30, 2007

Total fund balances - governmental funds	\$	357,729
---	-----------	----------------

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$244,275, and the accumulated depreciation is \$110,266.		134,009
--	--	---------

Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(105,240)</u>
---	--	------------------

Total net assets - governmental activities	\$	<u>386,498</u>
---	-----------	-----------------------

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

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Special Revenue Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Federal sources passed through local school district	\$ -	\$ 337,876	\$ 337,876
State and local sources	3,529,373	-	3,529,373
Contributions and other revenue	319,659	-	319,659
Total revenues	<u>3,849,032</u>	<u>337,876</u>	<u>4,186,908</u>
EXPENDITURES			
Current:			
Instruction	2,323,311	259,647	2,582,958
Pupil personnel services	84,717	35,992	120,709
Instructional media	53,155	23,808	76,963
Instruction and curriculum development	155,960	-	155,960
Instructional staff training	4,974	611	5,585
Board	13,750	-	13,750
School administration	438,760	-	438,760
Fiscal services	148,631	1,210	149,841
Pupil transportation	96,779	-	96,779
Operation of plant	285,540	-	285,540
Community services	12,333	-	12,333
Capital outlay	27,847	16,608	44,455
Total expenditures	<u>3,645,757</u>	<u>337,876</u>	<u>3,983,633</u>
Net changes in fund balances	203,275	-	203,275
Fund balances at beginning of year	154,454	-	154,454
Fund balances at end of year	<u>\$ 357,729</u>	<u>\$ -</u>	<u>\$ 357,729</u>

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

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lake Wales Charter Schools, Inc. (the "Company") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes. Janie Howard Wilson Elementary School (the "School") operates as part of the Company with four other charter schools in the Lake Wales, Florida area. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of no less than three and no more than nine members. Effective July 1, 2004, the School converted from a public school to a charter school.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Polk County, Florida (the "School Board"). The current charter is effective until December 31, 2007 and may be renewed by mutual written agreement between the School and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter. In this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the School Board. The School is not considered a component unit of the School Board; however, the School meets the definition of a governmental entity under the *Audit and Accounting Guide – State and Local Governments* issued by the American Institute of Certified Public Accountants. As a result, 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 Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Basis of presentation

The School's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. Accordingly, both government-wide and fund financial statements are presented.

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

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

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program (FEFP) and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund balance, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The funds in the financial statements of this report are as follows:

Governmental Funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund.
- Special Revenue Fund – to account for the proceeds of specific revenue sources and Federal grants that are restricted by law or administrative action to expenditure for specific purposes.

For purposes of these statements, the general and special revenue funds constitute major funds. There are no other governmental funds.

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Basis of accounting

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

The government-wide financial statements are presented using the accrual basis of accounting and an economic resources focus. Under the accrual basis of accounting, revenues and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within sixty days of the end of the fiscal year. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) interest on general long-term debt is recognized when due and (2) expenditures related to liabilities reported as general long-term debt are recognized when due.

Budgetary basis accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries, purchased services and capital outlay).

Deposits and investments

During the year ended June 30, 2007, the Company maintained cash deposits on a pooled basis for all of its charter schools. Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The Company's cash consists primarily of demand deposits with financial institutions.

Capital assets and depreciation

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation, in the government-wide financial statements. Donated assets are recorded at fair value at the date of donation.

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Furniture, fixtures and equipment	3

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

Compensated absences

Compensated absences (i.e. paid absences for employee vacation leave and sick leave) are recorded as an expenditure in the governmental funds when leave is used or when accrued as payable to employees entitled to cash payment in lieu of taking leave. In the government-wide financial statements, compensated absences are recorded as an expense when earned by the employees. The liability for compensated absences is classified as current in the government-wide financial statements because the amount of vacation and sick time to be used after the following year cannot be reasonably estimated.

Revenue sources

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

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. The School Board receives a 5% administrative fee from the School, which is reflected as a fiscal services expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds. This administrative fee is calculated on the FEFP revenue up to 500 students. The difference between the actual fee and the fee as calculated on total FEFP revenue is restricted for capital outlay expenditures.

The School may receive federal awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. For federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and affect revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

2 ACCOUNTS RECEIVABLE

Accounts receivable included in the accompanying financial statements include \$129,596 in funds receivable from the School Board, which are detailed as follows:

Reading First grant	\$ 13,351
Microsoft settlement agreement	28,779
Title I Grants to Local Educational Agencies	31,270
Title II - Improving Teacher Quality State Grant	5,501
Voluntary pre-kindergarten program	17,704
Other	<u>32,991</u>
Total	<u>\$ 129,596</u>

Based on collectibility of funds from this source, an allowance for doubtful accounts is not considered necessary. The amounts to be received under the Microsoft settlement agreement are reflected as restricted net assets in the accompanying statement of net assets and reserved fund balance in the accompanying balance sheet – governmental funds since they must be spent for computer hardware and software.

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

3 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Furniture, fixtures and equipment	\$ 199,820	\$ 44,455	\$ -	\$ 244,275
Less accumulated depreciation for:				
Furniture, fixtures and equipment	<u>(36,159)</u>	<u>(74,107)</u>	<u>-</u>	<u>(110,266)</u>
Governmental activities capital assets, net	<u>\$ 163,661</u>	<u>\$ (29,652)</u>	<u>\$ -</u>	<u>\$ 134,009</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	<u>\$ 74,107</u>
Total governmental activities depreciation expense	<u>\$ 74,107</u>

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

4 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

The following is a schedule of state and local revenue sources and amounts:

District School Board of Polk County, Florida:	
Florida Education Finance Program	\$ 2,336,619
Class size reduction	439,999
Supplemental academic instruction	148,388
ESE guaranteed allocation	135,348
Discretionary millage funds	131,577
Discretionary tax equalization funds	95,308
Reading first grant	73,027
Instructional materials	60,298
School recognition	59,426
Discretionary lottery funds	21,580
Safe schools	13,266
Teacher lead pay	10,660
Other	<u>3,877</u>
Total	<u><u>\$ 3,529,373</u></u>

The administration fee paid to the School Board during the year ended June 30, 2007 totaled approximately \$149,000 which is reflected as a fiscal services expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

5 RELATED PARTY TRANSACTIONS

As previously noted, the Company maintained cash deposits on a pooled basis for all of its charter schools during the fiscal year ended June 30, 2007. The amount due from the central administrative office in the accompanying financial statements represents the School's share of the pooled cash balance. The net balance of \$247,719 primarily includes amounts advanced by the School to the Company for operating costs. The balance is also net of payroll liabilities (taxes, insurance, retirement, etc.) to be paid by the Company on behalf of the School.

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

In addition, the Company provides certain management and administrative services to the School. Expenses for these services are allocated to each charter school operated by the Company based on the relative number of students. For the year ended June 30, 2007, the School's share of these expenses totaled \$85,028, which is reflected as a school administration expenditure in the accompanying financial statements.

During fiscal 2007, the Company operated and managed all of its charter schools as one collective unit, although each charter school is considered a separate reporting entity. As one legal entity, the Company has the option to transfer funds between schools as it deems necessary. The following schedule reflects the unreserved and undesignated general fund balance (deficit) of each school as of June 30, 2007:

Dale R. Fair Babson Park Elementary School	\$ (840,651)
Hillcrest Elementary School	411,698
Janie Howard Wilson Elementary School	312,303
Lake Wales High School	975,265
Polk Avenue Elementary School	<u>55,145</u>
Total	<u><u>\$ 913,760</u></u>

6 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage.

7 COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2007 may be impaired.

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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

Legal matters

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

8 CAMPUS FACILITY

Title to the school building and facilities and other capital assets acquired prior to July 1, 2004 remains with the School Board. Florida Statutes provide that the use of the school building and facilities be furnished to charter schools on the same basis as made available to other public schools in the district. No rental or leasing fee may be charged by the district school board to the charter school or to the parents and teachers who organize the charter school.

In management's opinion, the value of facilities utilized by the School is significant; therefore, any substantial changes in Florida Statutes related to facilities use by conversion charter schools could have a material effect on the School's operations.

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
State and local sources	\$ 3,672,853	\$ 3,522,618	\$ 3,529,373	\$ 6,755
Contributions and other revenue	-	-	319,659	319,659
Total revenues	<u>3,672,853</u>	<u>3,522,618</u>	<u>3,849,032</u>	<u>326,414</u>
EXPENDITURES				
Current:				
Instruction	2,287,600	2,206,664	2,323,311	(116,647)
Pupil personnel services	85,680	87,573	84,717	2,856
Instructional media	61,198	61,331	53,155	8,176
Instruction and curriculum development	152,243	145,003	155,960	(10,957)
Instructional staff training	27,000	27,000	4,974	22,026
Board	12,000	12,000	13,750	(1,750)
School administration	401,259	351,092	438,760	(87,668)
Fiscal services	148,077	148,503	148,631	(128)
Pupil transportation	80,000	95,200	96,779	(1,579)
Operation of plant	254,088	274,372	285,540	(11,168)
Community services	-	-	12,333	(12,333)
Capital outlay	-	-	27,847	(27,847)
Total expenditures	<u>3,509,145</u>	<u>3,408,738</u>	<u>3,645,757</u>	<u>(237,019)</u>
Net change in fund balance	163,708	113,880	203,275	89,395
Fund balance at beginning of year	<u>154,454</u>	<u>154,454</u>	<u>154,454</u>	-
Fund balance at end of year	<u>\$ 318,162</u>	<u>\$ 268,334</u>	<u>\$ 357,729</u>	<u>\$ 89,395</u>

See report of independent auditors.

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Federal sources passed through local school district	\$ 426,789	\$ 457,164	\$ 337,876	\$ (119,288)
Total revenues	<u>426,789</u>	<u>457,164</u>	<u>337,876</u>	<u>(119,288)</u>
EXPENDITURES				
Current:				
Instruction	336,800	397,143	259,647	137,496
Pupil personnel services	21,569	35,574	35,992	(418)
Instructional media	19,746	23,234	23,808	(574)
Instructional staff training	47,460	-	611	(611)
Fiscal services	1,214	1,213	1,210	3
Capital outlay	-	-	16,608	(16,608)
Total expenditures	<u>426,789</u>	<u>457,164</u>	<u>337,876</u>	<u>119,288</u>
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.



**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 Lake Wales Charter Schools, Inc. –
Janie Howard Wilson Elementary School

We have audited the financial statements of the governmental activities and each major fund of Lake Wales Charter Schools, Inc. – Janie Howard Wilson Elementary School (the “School”) as of and for the year ended June 30, 2007, and have issued our report thereon dated August 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School’s internal control over financial reporting in order to determine 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School’s financial statements that is more than inconsequential will not be prevented or detected by the School’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School’s internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the School, the District School Board of Polk 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.

BKHM, P.A.

Winter Park, Florida
August 27, 2007

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



To the Board of Directors of Lake Wales Charter Schools, Inc. –
Janie Howard Wilson Elementary School

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Lake Wales Charter Schools, Inc. – Janie Howard Wilson Elementary School (the “School”) as of and for the year ended June 30, 2007, we considered the School’s internal control in order to determine 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. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

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.

This communication is intended solely for the information and use of the Board of Directors, management and others within Lake Wales Charter Schools, Inc. – Janie Howard Wilson Elementary School and is not intended to be and should not be used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
August 27, 2007

**LAKE WALES CHARTER SCHOOLS, INC.
JANIE HOWARD WILSON ELEMENTARY SCHOOL**

**RECOMMENDATIONS TO IMPROVE COMPLIANCE, INTERNAL CONTROL
AND THE FINANCIAL REPORTING PROCESS**

JUNE 30, 2007

There are no findings or recommendations in the current year.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

There were no findings or recommendations in the prior year.