



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF
POLK COUNTY, FLORIDA**

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

JUNE 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Compass Charter Middle School, Inc. (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2008, the School's revenues exceeded expenses by \$248,886.
- Total net assets increased 37% during 2008 to \$927,392.

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 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*.

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 nonfinancial 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 an accounting entity with 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 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 increased from fiscal years 2007 to 2008 (see table below).

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2007</u>	<u>2008</u>	<u>(Decrease)</u>
Current and other assets	\$704,411	\$927,738	32%
Capital assets, net	4,667	43,597	834%
Total assets	<u>709,078</u>	<u>971,335</u>	<u>37%</u>
Current and other liabilities	<u>30,572</u>	<u>43,943</u>	<u>44%</u>
Net assets:			
Invested in capital assets	4,667	43,597	834%
Restricted	9,031	-	-100%
Unrestricted	<u>664,808</u>	<u>883,795</u>	<u>33%</u>
Total net assets	<u>\$678,506</u>	<u>\$927,392</u>	<u>37%</u>

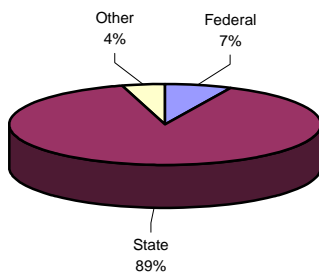
The increase in current and other assets is due to an increase in cash balances due primarily to the excess of revenues over expenses and an increase in receivables from the School Board. The increase in capital assets is due to the purchase of a three year software subscription, net of accumulated depreciation expense. The increase in current and other liabilities is due to the timing of payments at year end. The decrease in the restricted net assets is due to the utilization of restricted funds as required. The increase in unrestricted net assets is due to the current year excess of revenue over expenses.

Change in Net Assets

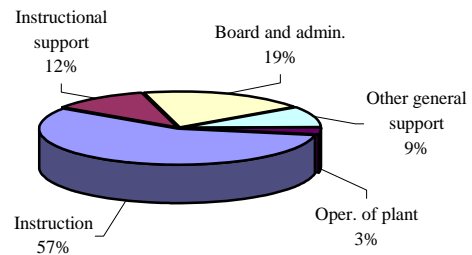
The School's total revenues were approximately \$1,292,000 and total expenses were approximately \$1,043,000 (see table below).

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2007</u>	<u>2008</u>	<u>(Decrease)</u>
Revenues:			
Federal sources passed through local school district	\$ 22,969	\$ 90,408	294%
State and local sources	1,090,461	1,145,047	5%
Contributions and other revenue	51,109	56,929	11%
Total revenues	1,164,539	1,292,384	11%
Expenses:			
Instruction	512,163	591,065	15%
Pupil personnel services	127,015	117,496	-7%
Curriculum development services	70	-	-100%
Instructional staff training	10,631	2,909	-73%
Board	16,448	22,419	36%
School administration	132,941	180,362	36%
Fiscal services	29,801	26,197	-12%
Pupil transportation services	66,230	71,482	8%
Operation of plant	33,611	31,568	-6%
Total expenses	928,910	1,043,498	12%
Change in net assets	\$ 235,629	\$ 248,886	6%

2008 Revenues



2008 Expenses



Revenues from federal sources increased due to the school receiving Title I funding in the current year. State and local sources increased due to an increase in allocation from the State for class size reduction and FEFP as determined by the State approved budget.

Instruction expenses increased due to the School employing an additional experienced teacher for Title I purposes. Instructional staff training decreased due to the School utilizing more local training courses, in lieu of out of state seminars. Board expenses increased due to the timing of audit expenses between fiscal years. School administration costs increased due to an increase in administrative personnel. Fiscal services decreased due to a change in contract service vendors. Pupil transportation increased due to rising costs of transportation.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

General Fund Budgetary Highlights

Over the course of the year, the School revised its budget several times. These amendments fall into three categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances.
- Changes in appropriations to prevent certain budget overruns.
- Changes to the number of students enrolled at the school.

With these adjustments, actual general fund revenues were approximately \$3,000, or less than 1%, above final budget amounts.

Actual general fund expenditures were approximately \$193,000, or 16% under final budget amounts. Instruction expenditures were under budget primarily due to teacher and substitute salaries that were less than expected.

CAPITAL ASSET ADMINISTRATION

At the end of fiscal year 2008, the School had invested \$185,120 in capital assets, including computers, furniture, fixtures and equipment.

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

- Novanet Computer Software - \$50,450

The School's fiscal year 2009 capital budget includes spending an additional \$10,000 for capital assets. 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

When adopting the budget for fiscal year 2009, the School expected a slight decrease in enrollment.

Amounts available for appropriation in the general fund are approximately \$1,070,000, a decrease of approximately 11% over the actual revenue of approximately \$1,200,000 for the current fiscal year. Revenues are budgeted to decrease due to a slight decrease in student enrollment and funding cuts from state and local sources.

Budget expenditures are expected to be approximately \$1,200,000, an increase of approximately 21% over actual expenditures of approximately \$989,000 for the current fiscal year, due to the anticipation of hiring experienced instructional staff and the associated benefits. In addition to staffing expenditures, operating costs have been budgeted to anticipate some inflationary increases.

If these estimates are realized, the School's budgetary general fund balance is expected to decrease by the close of fiscal year 2009.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

The 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 550 E. Clower Street, Bartow, Florida 33830.



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Report of Independent Auditors on Basic Financial Statements and Supplementary Information

To the Board of Directors of Compass Charter Middle School, Inc.,
a Charter School and Component Unit of the District School Board
of Polk County, Florida

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Compass Charter Middle School, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2008, 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, the major fund and the aggregate remaining fund information of Compass Charter Middle School, Inc. as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008 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 – 6 and the budgetary comparison schedule on page 25 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
September 22, 2008

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 859,921
Accounts receivable	64,431
Other assets	3,386
Capital assets:	
Furniture, fixtures and equipment	185,120
Less accumulated depreciation	(141,523)
Total capital assets, net	43,597
Total assets	\$ 971,335
LIABILITIES	
Accounts payable and accrued expenses	\$ 40,660
Deferred revenue	3,283
Total liabilities	43,943
NET ASSETS	
Invested in capital assets	43,597
Unrestricted	883,795
Total net assets	927,392
Total liabilities and net assets	\$ 971,335

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

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Instruction	\$ 591,065	\$ -	\$ 88,773	\$ -	\$ (502,292)	\$ (502,292)
Pupil personnel services	117,496	-	-	-	(117,496)	(117,496)
Instructional staff training	2,909	-	1,635	-	(1,274)	(1,274)
Board	22,419	-	-	-	(22,419)	(22,419)
School administration	180,362	-	-	-	(180,362)	(180,362)
Fiscal services	26,197	-	-	-	(26,197)	(26,197)
Pupil transportation services	71,482	-	-	-	(71,482)	(71,482)
Operation of plant	31,568	-	-	-	(31,568)	(31,568)
Total primary government	<u>\$ 1,043,498</u>	<u>\$ -</u>	<u>\$ 90,408</u>	<u>\$ -</u>	<u>(953,090)</u>	<u>(953,090)</u>
General revenues:						
State and local sources					1,145,047	1,145,047
Contributions and other revenue					56,929	56,929
Total general revenues					<u>1,201,976</u>	<u>1,201,976</u>
Change in net assets					248,886	248,886
Net assets at beginning of year					<u>678,506</u>	<u>678,506</u>
Net assets at end of year					<u>\$ 927,392</u>	<u>\$ 927,392</u>

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

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 859,921	\$ -	\$ 859,921
Accounts receivable	56,798	7,633	64,431
Due from other governmental funds	4,350	-	4,350
Other assets	3,386	-	3,386
	\$ 924,455	\$ 7,633	\$ 932,088
 LIABILITIES AND FUND BALANCE			
Accounts payable and accrued expenses	\$ 32,205	\$ -	\$ 32,205
Due to general fund	-	4,350	4,350
Deferred revenue	-	3,283	3,283
	32,205	7,633	39,838
 Fund balance:			
Unreserved:			
Undesignated	892,250	-	892,250
Total fund balance	892,250	-	892,250
Total liabilities and fund balance	\$ 924,455	\$ 7,633	\$ 932,088

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

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

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

JUNE 30, 2008

Total fund balance - governmental funds	\$ 892,250
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$185,120 and the accumulated depreciation is \$141,523.	43,597
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Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(8,455)</u>
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Total net assets - governmental activities	<u><u>\$ 927,392</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

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

FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Federal sources passed through school district	\$ -	\$ 90,408	\$ 90,408
State and local sources	1,145,047	-	1,145,047
Contributions and other revenue	56,929	-	56,929
Total revenues	1,201,976	90,408	1,292,384
EXPENDITURES			
Current:			
Instruction	491,397	88,773	580,170
Pupil personnel services	117,130	-	117,130
Instructional staff training	1,274	1,635	2,909
Board	22,419	-	22,419
School administration	176,769	-	176,769
Fiscal services	26,197	-	26,197
Pupil transportation services	71,482	-	71,482
Operation of plant	31,568	-	31,568
Capital outlay	50,450	-	50,450
Total expenditures	988,686	90,408	1,079,094
Net changes in fund balances	213,290	-	213,290
Fund balances at beginning of year	678,960	-	678,960
Fund balances at end of year	\$ 892,250	\$ -	\$ 892,250

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

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2008

Net changes in fund balances - total governmental funds	\$ 213,290
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$50,450) exceed depreciation expense (\$11,520).	38,930
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Compensated absences included in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds.	<u>(3,334)</u>
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Change in net assets of governmental activities	<u><u>\$ 248,886</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Compass Charter Middle 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 governing body of the School is the not-for-profit corporation Board of Directors, which is composed of five members. Effective July 1, 2002, 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 June 30, 2010 and may be renewed in increments of five or fifteen years 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 considered a component unit of the School Board and 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; 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 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.

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

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

Governmental Fund:

- General Fund - to account for all financial resources not required to be accounted for in another fund.
- 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 fund constitutes a major fund. The special revenue fund is non-major.

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK 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 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

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 School's cash consists primarily of demand deposits and certificate of deposit with financial institutions.

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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.

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 – 5

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 expense/expenditure in 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. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the Florida Department of Education (FDOE) by the state legislature. 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.

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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 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 school administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds.

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.

Use of estimates

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

2 ACCOUNTS RECEIVABLE

Accounts receivable included in the accompanying statement of net assets and balance sheet – governmental funds includes \$55,065 due under the Florida Education Finance Program from the School Board, \$7,633 due from IDEA funding, and \$1,733 in receivables from other sources. Based on the collectibility of funds from these sources, an allowance for doubtful accounts is not considered necessary.

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

3 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Furniture, fixtures and equipment	\$ 134,670	\$ 50,450	\$ -	\$ 185,120
Less accumulated depreciation for:				
Furniture, fixtures and equipment	<u>(130,003)</u>	<u>(11,520)</u>	<u>-</u>	<u>(141,523)</u>
Governmental activities capital assets, net	<u>\$ 4,667</u>	<u>\$ 38,930</u>	<u>\$ -</u>	<u>\$ 43,597</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 11,240
School administration	<u>280</u>
Total governmental activities depreciation expense	<u>\$ 11,520</u>

**COMPASS CHARTER MIDDLE SCHOOL, INC.
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**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	\$ 741,144
Class size reduction	167,773
Supplemental academic instruction	50,268
Discretionary millage funds	48,015
Transportation	47,895
Discretionary tax equalization funds	30,000
ESE guaranteed allocation	29,106
Instructional materials	18,443
Discretionary lottery funds	8,196
Safe schools	<u>4,207</u>
Total	<u>\$ 1,145,047</u>

The administration fee paid to the School Board during the year ended June 30, 2008 totaled approximately \$55,000 which is reflected as a school administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

5 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.

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

6 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 as of June 30, 2008 may be impaired.

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.

7 CAMPUS FACILITY

Title to the school building and facilities and other capital assets acquired prior to July 1, 2002 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 the facilities utilized by the school is significant; therefore, any substantial changes in the Florida Statutes related to facilities use by conversion charter schools could have a material effect on the School's operations.

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

8 RETIREMENT PROGRAM

Defined benefit plan

All regular employees of the School are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of the FRS. Benefits in the Plan vest at six years of service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability and death benefits and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust and accrue interest. The School had no DROP participants during fiscal 2008.

Funding policy

The contribution rates for members are established, and may be amended, by the State of Florida. During the 2008 fiscal year, contribution rates were as follows:

<u>Class or Plan</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (A)</u>
Florida Retirement System, Regular	0%	9.85%
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

**COMPASS CHARTER MIDDLE SCHOOL, INC.
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

The School's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the School. The School's contribution to the Plan for the year ended June 30, 2008 totaled approximately \$52,000, which was equal to the required contributions for the fiscal year.

Defined contribution plan

Effective July 1, 2002, the Public Employee Optional Retirement Program (PEORP) was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (i.e.: regular class, reemployed retiree, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. The School had no PEORP participants during fiscal 2008.

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
State and local sources	\$ 1,064,315	\$ 1,143,923	\$ 1,145,047	\$ 1,124
Contributions and other revenue	46,753	54,754	56,929	2,175
Total revenues	<u>1,111,068</u>	<u>1,198,677</u>	<u>1,201,976</u>	<u>3,299</u>
EXPENDITURES				
Current:				
Instruction	638,458	602,807	491,397	111,410
Pupil personnel services	165,075	161,628	117,130	44,498
Instructional staff training	10,000	10,000	1,274	8,726
Board	24,400	24,284	22,419	1,865
School administration	183,231	189,889	176,769	13,120
Fiscal services	28,984	26,190	26,197	(7)
Pupil transportation services	67,725	67,725	71,482	(3,757)
Operation of plant	38,500	38,600	31,568	7,032
Capital outlay	60,000	60,818	50,450	10,368
Total expenditures	<u>1,216,373</u>	<u>1,181,941</u>	<u>988,686</u>	<u>193,255</u>
Net changes in fund balance	(105,305)	16,736	213,290	196,554
Fund balance at beginning of year	<u>678,960</u>	<u>678,960</u>	<u>678,960</u>	<u>-</u>
Fund balance at end of year	<u>\$ 573,655</u>	<u>\$ 695,696</u>	<u>\$ 892,250</u>	<u>\$ 196,554</u>

See report of independent auditors.



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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 Compass Charter Middle School, Inc., a Charter School and Component Unit of the District School Board of Polk County, Florida

We have audited the basic financial statements of Compass Charter Middle School, Inc. (the “School”), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2008, which collectively comprise the School’s basic financial statements and have issued our report thereon dated September 22, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control over financial reporting.

A 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 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
September 22, 2008

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



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

To the Board of Directors of Compass Charter Middle School, Inc.,
a Charter School and Component Unit
of the District School Board of Polk County, Florida

In planning and performing our audit of the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Compass Charter Middle School, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2008, 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 opinion 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.

Section 10.855(10), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we have applied financial condition assessment procedures as of June 30, 2008, which included calculation and analysis of certain financial indicators we considered relevant to the School. Our financial condition assessment procedures did not include the use of benchmarks. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management.

This report is intended solely for the information and use of the Board of Directors, management and others within Compass Charter Middle School, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
September 22, 2008

**COMPASS CHARTER MIDDLE SCHOOL, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

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

JUNE 30, 2008

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.