



**LIFE SKILLS CENTER POLK COUNTY EAST, 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, 2011



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**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

The discussion and analysis of the Life Skills Center Polk County East, Inc.'s (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

The assets of the School exceeded its liabilities at the close of the fiscal year by \$83,014 (net assets). This is a decline from the prior year, when assets of the School exceeded its liabilities by \$145,874. This decrease is primarily related to the current year excess of expenses over revenues.

Revenues from federal sources decreased 36% (\$83,221), while revenues from state and local sources decreased 27% (\$462,487) for a net decrease in revenues of 28% (\$546,017). The decreases were due to lower enrollment from the previous year. Expenses decreased 11% (\$276,884) and expenses paid by the management company increased 52% (\$219,770) as a result of the lower enrollment and due to the closing of the School.

Using this Financial Report

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

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

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

Government-Wide Financial Statements

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

The 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 - are one way to measure the School's financial position. Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating.

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
(continued)**

Net Assets

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

	Net Assets		Increase (Decrease)
	<u>2011</u>	<u>2010</u>	<u>(Decrease)</u>
Assets			
Current Assets	\$ 125,209	\$ 126,387	\$ (1,178)
Capital Assets, net	<u>55,063</u>	<u>83,449</u>	<u>(28,386)</u>
Total Assets	<u>\$ 180,272</u>	<u>\$ 209,836</u>	<u>\$ (29,564)</u>
Liabilities			
Current Liabilities	<u>\$ 97,258</u>	<u>\$ 63,962</u>	<u>\$ 33,296</u>
Net Assets			
Invested in Capital Assets	55,063	83,449	(28,386)
Unrestricted	<u>27,951</u>	<u>62,425</u>	<u>(34,474)</u>
Total Net Assets	<u>\$ 83,014</u>	<u>\$ 145,874</u>	<u>\$ (62,860)</u>

Net capital assets decreased as a result of depreciation expense. Current liabilities increased primarily as a result of increased management fees payable. Unrestricted net assets decreased due to the excess of expenses over revenues.

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
(continued)**

Change in Net Assets

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

Change in Net Assets			
	2011	2010	Increase (Decrease)
Revenues			
Federal Direct	\$ 25,124	\$ 25,489	\$ (365)
Federal Sources Passed Through			
Local School District	123,999	206,855	(82,856)
State and Local Sources	1,282,632	1,745,119	(462,487)
Other Revenue	231	540	(309)
Total Revenues	1,431,986	1,978,003	(546,017)
Expenses			
Instruction	721,801	865,788	(143,987)
Pupil Personnel Services	132,127	139,768	(7,641)
Instructional Staff Training Services	4,513	7,055	(2,542)
Instruction Related Technology	119,965	141,245	(21,280)
Board	67,192	37,765	29,427
General Administration	143,481	176,449	(32,968)
School Administration	356,334	460,496	(104,162)
Facilities Acquisition and Construction	395,224	394,419	805
Transportation	53,163	41,479	11,684
Operation of Plant	126,764	121,326	5,438
Maintenance of Plant	13,111	24,769	(11,658)
Total Expenses	2,133,675	2,410,559	(276,884)
Special Item			
Expenses Paid by WHLS on Behalf of the School (See Note 7)	638,829	419,059	219,770
Change in Net Assets	\$ (62,860)	\$ (13,497)	\$ (49,363)

Total revenues and expenses decreased primarily due to the School's lower enrollment during the school year. Expenses paid by the management company on behalf of the School increased due to the excess of expenses over revenues.

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
(continued)**

Fund Financial Statements

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

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

In particular, unassigned fund balance is a useful measure of the School's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the School's governmental funds reported a combined ending unassigned fund balance of \$16,823. Both revenues and expenditures decreased overall for the same reasons described above.

Budgetary Highlights

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

The School's final general fund budget estimated a \$28,993 carryover for the following year. Actual results produced a carryover in the general fund of \$27,951.

With the budget adjustments to the general fund, instruction expenditures were approximately \$59,000 more than budgeted, pupil personnel services were approximately \$52,000 less than budgeted, and instruction related technology expenditures were approximately \$26,000 less than budgeted due to the reclassification of certain expenditures after the final budget was approved. General administration was approximately \$8,500 over budget due to costs associated with the closing of the School. Transportation expenditures were approximately \$8,000 over budget due to higher than expected student use of bus passes. Operation of plant was approximately \$6,000 over budget due to slightly higher than expected operational expenditures during the second half of the year. Expenditures paid by WHLS on behalf of the School were approximately \$22,000 more than budgeted due to higher than anticipated School operational expenditures during the year.

With the budget adjustments to the special revenue fund, revenue and expenditures from Federal sources was approximately \$9,000 more than budgeted due to higher than expected Federal grant revenues.

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
(continued)**

Capital Assets

At the end of fiscal year 2011, the School had \$141,927 invested in capital assets. The table below shows comparative balances of capital assets for fiscal years 2011 and .

Capital Assets (Net of Depreciation)		Increase (Decrease)
	<u>2011</u>	<u>2010</u>
Furniture and Equipment	<u>\$ 55,063</u>	<u>\$ 83,449</u>
	<u>\$ 55,063</u>	<u>\$ (28,386)</u>

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

Current Financial Issues

As explained more fully in Note 7 to the basic financial statements, the School contracted with WHLS of Florida, LLC ("WHLS") for the majority of its day-to-day services which included facilities, equipment, technology, operational support services (including execution of the educational model), personnel and training, management and management consulting. WHLS agreed to provide these services for a percentage share of the per pupil revenues received by the School from the District School Board of Polk County, thereby assuming the financial risk that such share of revenues would not be sufficient to cover expenses. Payment of any excess expenses by WHLS did not represent a loan or future obligation of the School to WHLS.

For fiscal year 2011, the School's fifth year of operation, WHLS provided \$638,829 in additional support to the School. Since the School closed at the end of the 2010 – 2011 school year, no additional support will be provided by WHLS.

Contacting the School's Financial Management

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Life Skills Center Polk County East, Inc., 159 S. Main St., Suite 600, Akron, OH 44308.



Report of Independent Auditors on Basic Financial Statements and Supplementary Information

To the Board of Directors of Life Skills Center Polk County East, 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 and each major fund of Life Skills Center Polk County East, 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, 2011, 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 Life Skills Center Polk County East, Inc. as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 - 5 and the budgetary comparison information on pages 21 - 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKHM, P.A.

Winter Park, Florida
September 30, 2011

LIFE SKILLS CENTER POLK COUNTY EAST, INC.
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	<u>Governmental Activities</u>
Cash and Cash Equivalents	\$ 76,408
Accounts Receivable	37,673
Prepaid Expenses	11,128
Capital Assets:	
Furniture and Equipment	141,927
Less Accumulated Depreciation	<u>(86,864)</u>
Total Capital Assets, net	<u>55,063</u>
Total Assets	<u><u>\$ 180,272</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts Payable	\$ 9,500
Due to Management Company	<u>87,758</u>
Total Liabilities	<u>97,258</u>
NET ASSETS	
Invested in Capital Assets	55,063
Unrestricted	<u>27,951</u>
Total Net Assets	<u>83,014</u>
Total Liabilities and Net Assets	<u><u>\$ 180,272</u></u>

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

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

FUNCTIONS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:	Expenses	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities
Instruction	\$ 721,801	\$ -	\$ 13,926	\$ (707,875)
Pupil Personnel Services	132,127	-	49,247	(82,880)
Instructional Staff Training	4,513	-	-	(4,513)
Instruction Related Technology	119,965	-	25,124	(94,841)
Board	67,192	-	-	(67,192)
General Administration	143,481	-	-	(143,481)
School Administration	356,334	-	-	(356,334)
Facilities Acquisition and Construction	395,224	-	-	(395,224)
Transportation	53,163	-	-	(53,163)
Operation of Plant	126,764	-	-	(126,764)
Maintenance of Plant	13,111	-	-	(13,111)
Total Governmental Activities	\$ 2,133,675	\$ -	\$ 88,297	(2,045,378)
General Revenues:				
Federal Sources				60,826
State and Local Sources				1,282,632
Other Revenues				231
Total General Revenues				1,343,689
Special Item:				
Expenses Paid by WHLS on Behalf of the School (See Note 7)				638,829
Change in Net Assets				(62,860)
Net Assets-Beginning				145,874
Net Assets-Ending				\$ 83,014

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

LIFE SKILLS CENTER POLK COUNTY EAST, INC.
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 76,408	\$ -	\$ 76,408
Accounts Receivable	8,350	29,323	37,673
Prepaid Expenditures	11,128	-	11,128
Due from Capital Projects Fund	29,323	-	29,323
Total Assets	<u>\$ 125,209</u>	<u>\$ 29,323</u>	<u>\$ 154,532</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 9,500	\$ -	\$ 9,500
Due to Management Company	87,758	-	87,758
Due to General Fund	-	29,323	29,323
Total Liabilities	<u>97,258</u>	<u>29,323</u>	<u>126,581</u>
FUND BALANCES			
Nonspendable:			
Prepaid Expenditures	11,128	-	11,128
Unassigned	16,823	-	16,823
Total Fund Balances	<u>27,951</u>	<u>-</u>	<u>27,951</u>
Total Liabilities and Fund Balances	<u>\$ 125,209</u>	<u>\$ 29,323</u>	<u>\$ 154,532</u>

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

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balances - Governmental Funds \$ 27,951

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.

55,063

Total Net Assets - Governmental Activities

\$ 83,014

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

LIFE SKILLS CENTER POLK COUNTY EAST, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Capital Projects Fund	Special Revenue Fund	Total Governmental Funds
REVENUES				
Federal Direct	\$ -	\$ -	\$ 25,124	\$ 25,124
Federal Sources Passed Through				
Local School District	-	-	123,999	123,999
State and Local Sources	1,158,923	123,709	-	1,282,632
Other Revenues	231	-	-	231
Total Revenues	1,159,154	123,709	149,123	1,431,986
EXPENDITURES				
Instruction	618,663	-	74,752	693,415
Pupil Personnel Services	82,880	-	49,247	132,127
Instructional Staff Training	4,513	-	-	4,513
Instruction Related Technology	94,841	-	25,124	119,965
Board	67,192	-	-	67,192
General Administration	143,481	-	-	143,481
School Administration	356,334	-	-	356,334
Facilities Acquisition and Construction	271,515	123,709	-	395,224
Transportation	53,163	-	-	53,163
Operation of Plant	126,764	-	-	126,764
Maintenance of Plant	13,111	-	-	13,111
Total Expenditures	1,832,457	123,709	149,123	2,105,289
SPECIAL ITEM				
Expenses Paid by WHLS on Behalf of the School (See Note 7)	638,829	-	-	638,829
Net Changes in Fund Balances	(34,474)	-	-	(34,474)
Fund Balances, July 1, 2010	62,425	-	-	62,425
Fund Balances, June 30, 2011	<u>\$ 27,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,951</u>

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

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Net Changes In Fund Balances - Governmental Funds \$ (34,474)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense in the current period.

(28,386)

Change In Net Assets Of Governmental Activities \$ (62,860)

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

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1 DESCRIPTION OF SCHOOL AND REPORTING ENTITY

Life Skills Center Polk County East, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes.

The School contracted with WHLS of Florida, LLC ("WHLS") for most of its functions. See Note 7.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operated under a charter of the sponsoring school district, the District School Board of Polk County, Florida (the "School Board" or the "District"). The current charter was effective until June 30, 2011. The charter was not renewed, and the School closed as of June 30, 2011. Due to the termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the District. Subsequent to year-end, the District approved the transfer of certain property to a new charter school in Polk County that shares common board members. The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board ("GASB") accounting guidance; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

The School operated under a self-appointing, four-member Board of Directors (the "Board"). The School's Code of Regulations specifies that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors.

The School operated in a facility leased by WHLS. The facility was staffed with teaching personnel employed by WHLS.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Pronouncements

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

Basis of Presentation

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

LIFE SKILLS CENTER POLK COUNTY EAST, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(continued)

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

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

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

Governmental Funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund.
- 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.
- Capital Projects Fund - to account for the proceeds of capital outlay funds provided to charter schools pursuant to Florida Statutes, Section 1013.62.

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

Measurement Focus and Basis of Accounting

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

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

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

LIFE SKILLS CENTER POLK COUNTY EAST, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(continued)

Budgetary Basis of Accounting

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

Cash and Cash Equivalents

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

Revenue Sources

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

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

The School receives 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.

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

Capital Assets and Depreciation

For purposes of recording capital assets, the School has a capitalization threshold of \$5,000.

The capital assets are recorded on the accompanying Statement of Net Assets at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over five years for Furniture and Equipment.

LIFE SKILLS CENTER POLK COUNTY EAST, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(continued)

Aside from those mentioned above, the School has no other capital assets, as the School operated under a management agreement with WHLS (see Note 7).

Net Assets

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

Fund Balance Spending Policy

The School's adopted spending policy is to spend from restricted fund balance first, followed by committed, assigned, then the unassigned fund balance. Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. If expenditures are incurred that meet the purpose of more than one fund, they will be allocated to restricted fund balance first and then follow the order above. Funds can only be committed or assigned by formal action of the Board. There are no minimum fund balance requirements for any of the School's funds.

Income Taxes

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

The School has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

The School assesses its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the School believes it is "more likely than not" that its tax positions will be sustained upon an examination by the Internal Revenue Service ("IRS") or the applicable state taxing authority. Accordingly, there is no provision for federal income taxes in the financial statements, as the School believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS audit. State income taxes, which may be due in certain jurisdictions, have been assessed following the same "more likely than not" measurement threshold. With few exceptions, the School is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2007.

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(continued)**

Use of Estimates

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

Subsequent Events

The School has adopted guidance that requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The School has evaluated subsequent events through September 30, 2011, which is the date the financial statements were available to be issued.

3 ACCOUNTS RECEIVABLE

Accounts receivable in the accompanying Statement of Net Assets and Balance Sheet – Governmental Funds includes \$29,323 in capital outlay funds, which are receivable from the District. It also includes \$8,350, which is receivable from another school, which shares a common board of directors. Based on collectibility of funds from these sources, an allowance for doubtful accounts is not considered necessary.

4 CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2011, the School’s capital assets consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 141,927	\$ -	\$ -	\$ 141,927
Less Accumulated Depreciation:				
Furniture and Equipment	<u>(58,478)</u>	<u>(28,386)</u>	<u>-</u>	<u>(86,864)</u>
 Total Capital Assets Being Depreciated, Net	 <u>\$ 83,449</u>	 <u>\$ (28,386)</u>	 <u>\$ -</u>	 <u>\$ 55,063</u>

Depreciation expense of \$28,386 was charged to the Instruction function in the accompanying Statement of Activities.

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(continued)**

5 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

For the year ended June 30, 2011, state and local revenues were received from the District as follows:

Florida Education Finance Program	\$	718,375
Class Size Reduction		180,433
Capital Outlay		123,709
Student Transportation		53,644
Supplemental Academic Instruction		46,915
Discretionary Tax Equalization		46,434
Discretionary Millage		41,217
ESE Guaranteed Allocation		36,296
Safe Schools		17,883
Instructional Materials		15,532
Teacher Lead Program		1,676
Discretionary Lottery Funds		518
Total State and Local Revenue	\$	1,282,632

The administration fee paid to the School Board during the year ended June 30, 2011 totaled \$78,646, which is reflected as a General Administration expense/expenditure in the accompanying Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

6 RISK MANAGEMENT

Property and Liability

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement, WHLS contracted with an insurance company for property and general liability insurance (see Note 7).

Director and Officer

Coverage includes a \$1,000,000 aggregate limit and \$10,000 deductible.

7 AGREEMENT WITH WHLS

The School has historically entered into an annual Management Agreement (“Agreement”) with WHLS, which is an educational consulting and management company. Substantially all functions of the School were contracted to WHLS. WHLS was responsible and accountable to the School’s Board of Directors for the administration and operation of the School. The School

LIFE SKILLS CENTER POLK COUNTY EAST, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(continued)

was required to pay WHLS a monthly continuing fee of 97 percent of the School's "Qualified Gross Revenues," defined in the Agreement as "...all revenues and income received by the School except for charitable contributions" and "WHLS shall receive 100 percent of any and all grants or funding of any kind generated by WHLS, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any." The continuing fee was paid to WHLS based on the previous month's qualified gross revenues less any fees the School was required to remit to the School Board. The continuing fee earned by WHLS for the year ended June 30, 2011 was \$1,070,495. WHLS was responsible for all costs incurred in providing the educational program at the School, which included but were not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

Per the Agreement, no other amounts were required other than the continuing fee as reported above. For the year ended June 30, 2011, WHLS paid expenses to operate the School totaling \$638,829, which is included as a special item in the Statement of Activities and the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. Expenses to operate the School include the direct site expenses of the School and the expenses of the WHLS Florida administrative office, which manages the School's curriculum, human resources, finance/grants management, facilities, marketing, etc. The indirect costs of the Florida administrative office are recorded in the "General Administration" function on the accompanying Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances – Government Funds.

In accordance with the Agreement, substantially all assets used to operate the School were owned by WHLS, other than those recorded as capital assets in the accompanying Statement of Net Assets. Effective July 1, 2011, WHLS agreed to contribute all of the capital assets owned by WHLS to another school, which shares a common board of directors.

8 CONTINGENCES

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

9 CLOSING OF THE SCHOOL

The School's charter was in effect until June 30, 2011. The School's charter was not renewed with the District School Board of Polk County, and the School closed effective June 30, 2011. The School's management company, WHLS, is in the process of working with the District to determine how much cash and other assets will revert to the District as required by the School's charter agreement with the District. This is the final annual financial report of the School.

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget- Positive (Negative)
REVENUES				
State and Local Sources	\$ 2,097,168	\$ 1,156,438	\$ 1,158,923	\$ 2,485
Other Revenues	3,000	3,000	231	(2,769)
Total Revenues	<u>2,100,168</u>	<u>1,159,438</u>	<u>1,159,154</u>	<u>(284)</u>
EXPENDITURES				
Instruction	943,333	560,000	618,663	(58,663)
Pupil Personnel Services	175,583	135,000	82,880	52,120
Instructional Staff Training	20,417	15,000	4,513	10,487
Instruction Related Technology	-	120,500	94,841	25,659
Board	50,000	68,125	67,192	933
General Administration	-	135,000	143,481	(8,481)
School Administration	580,969	360,000	356,334	3,666
Facilities Acquisition and Construction	113,450	274,000	271,515	2,485
Transportation	45,000	45,000	53,163	(8,163)
Operation of Plant	130,000	120,625	126,764	(6,139)
Maintenance of Plant	28,500	20,000	13,111	6,889
Total Expenditures	<u>2,087,252</u>	<u>1,853,250</u>	<u>1,832,457</u>	<u>20,793</u>
SPECIAL ITEM				
Expenditures Paid by WHLS on Behalf of the School (See Note 7)	-	660,380	638,829	(21,551)
Net Changes in Fund Balance	12,916	(33,432)	(34,474)	(1,042)
Fund Balance, July 1, 2010	62,425	62,425	62,425	-
Fund Balance, June 30, 2011	<u>\$ 75,341</u>	<u>\$ 28,993</u>	<u>\$ 27,951</u>	<u>\$ (1,042)</u>

See report of independent auditors.

**LIFE SKILLS CENTER POLK COUNTY EAST, INC.
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
REVENUES				
Federal Direct	\$ -	\$ -	\$ 25,124	\$ 25,124
Federal Sources Passed Through Local School District	<u>200,000</u>	<u>140,000</u>	<u>123,999</u>	<u>(16,001)</u>
Total Revenues	<u>200,000</u>	<u>140,000</u>	<u>149,123</u>	<u>9,123</u>
EXPENDITURES				
Instruction	200,000	140,000	74,752	65,248
Pupil Personnel Services	-	-	49,247	(49,247)
Instruction Related Technology	<u>-</u>	<u>-</u>	<u>25,124</u>	<u>(25,124)</u>
Total Expenditures	<u>200,000</u>	<u>140,000</u>	<u>149,123</u>	<u>(9,123)</u>
Net Changes in Fund Balances	-	-	-	-
Fund Balance, July 1, 2010	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, June 30, 2011	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<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 Life Skills Center Polk County East, Inc., a Charter School
and Component Unit of the District School Board of Polk County, Florida

We have audited the financial statements of the governmental activities and each major fund of Life Skills Center Polk County East, 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, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 30, 2011. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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



Compliance and Other Matters

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

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 Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "BKM, P.A." in a cursive, stylized font.

Winter Park, Florida
September 30, 2011

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



To the Board of Directors of Life Skills Center Polk County East, Inc.,
a Charter School and Component Unit of the District
School Board of Polk County, Florida

We have audited the financial statements of the governmental activities and each major fund of Life Skills Center Polk County East, Inc. (the "School") as of and for the year ended June 30, 2011, and have issued our report thereon dated September 30, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated September 30, 2011, should be considered in conjunction with this management letter.

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

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings and recommendations made in the preceding annual financial audit report.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse that have occurred, or are



likely to have occurred, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

- Section 10.854(1)(e)6., Rules of the Auditor General, requires the name or official title of the school. The name of the School is Life Skills Center Polk County East, Inc.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition met. During the course of our audit, nothing came to our attention to indicate that the School had met any of the conditions described in Section 218.503(1), Florida Statutes (“the conditions”). However, in planning and performing our audit, we considered whether the School had met any of the conditions as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion as to whether the School had met any of the conditions. Accordingly, we do not express an opinion as to whether the School had met any of the conditions.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures as of June 30, 2011, which included calculation and analysis of certain financial indicators we considered relevant to the School. Our financial condition assessment procedures did not include the use of benchmarks. It is management’s responsibility to monitor the School’s financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, the Board of Directors and the 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 30, 2011