

PALM HARBOR ACADEMY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Management's Discussion and Analysis | 2 - 7 |
| Report of Independent Auditors on Basic Financial Statements and Supplementary Information | 8 - 9 |
| Basic Financial Statements: | |
| Statement of Net Assets | 10 |
| Statement of Activities | 11 |
| Balance Sheet – Governmental Funds | 12 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets | 13 |
| Statement of the Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 14 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 15 |
| Notes to Financial Statements | 16 – 21A |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule – General Fund | 22 |
| 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 | 23 - 24 |
| Additional Information Required by Rules of the Auditor General, Chapter 10.850, Audits of Charter Schools and Similar Entities: | |
| Management Letter | 25 - 27 |

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

Government-wide Financial Statement

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 condition. Over time, increases or decreases in the School's net assets are an indicator of whether its financial condition 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 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 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 be readily 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 as of June 30, 2011 are summarized as follows – see table below.

| | <u>Governmental Activities</u> <u>2011</u> |
|-------------------------------|---|
| Current and other assets | \$ 33,955 |
| Capital assets, net | <u>35,608</u> |
| Total assets | \$ <u>69,563</u> |
| Current and other liabilities | \$ 6,230 |
| Long-term liability | <u>0</u> |
| Total liabilities | \$ <u>6,230</u> |
| Net assets: | |
| Invested in capital assets | \$ 35,608 |
| Restricted for: | |
| Capital projects | 0 |
| Unrestricted | <u>\$ 27,725</u> |
| Total net assets | \$ <u>69,563</u> |

Change in Net Assets

For the year ended June 30, 2011, the School's total revenues exceeded total expenses by approximately \$9,000 – see table below.

| | <u>Governmental Activities</u> <u>2011</u> |
|---|---|
| Revenues: | |
| Federal sources passed through local school district | \$ 73,153 |
| State and local sources | 826,287 |
| Contributions and other revenue | <u>175,099</u> |
| Total revenues | <u>\$1,074,539</u> |
| Expenses: | |
| Instruction | \$ 381,981 |
| General administration | 301,618 |
| School administration | 353,925 |
| Pupil transportation | 20,793 |
| Operation and maintenance of plant | <u>6,935</u> |
| Total expenses | <u>\$1,065,252</u> |
| Change in net assets | \$ 9,287 |

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental fund reported an unassigned fund balance of \$16,259.

CAPITAL ASSET ADMINISTRATION

At the end of fiscal 2011, the School had invested \$57,214 in capital assets including furniture, fixtures, equipment, and vehicles.

More detailed information about the School's capital assets is presented in Note 7 to the financial statements.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the administrative offices of the School at 95 Old Kings Road North, Palm Coast, FL 32137.

Sandy & Nelson, P.A.
Certified Public Accountants

Members:

American Institute of
Certified Public Accountants

Florida Institute of
Certified Public Accountants

50 Leanni Way
Suite C-2
Palm Coast, FL 32137

Phone (386) 445-4375
Fax (386) 445-8053

**Report of Independent Auditors on Basic Financial Information
And Supplementary Information**

To the board of Directors of Palm Harbor Academy, Inc. a Charter School
And Component Unit of the District School Board of Flagler County, Flagler

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palm Harbor Academy, Inc, ("the School"), a charter school and component unit of the District School Board of Flagler 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, each major fund and the aggregate remaining fund information of Palm Harbor Academy, 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 August 31, 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 2 – 7 and the budgetary comparison information on page 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.

Sandy Nelson, PA

Palm Coast, Florida

August 31, 2011

PALM HARBOR ACADEMY, INC.

STATEMENT OF NET ASSETS

JUNE 30, 2011

| ASSETS | <u>Governmental Activities</u> |
|---------------------------------------|------------------------------------|
| Cash and cash equivalents | \$ 33,955 |
| Capital Assets: | |
| Furniture | 28,549 |
| Vehicles | 28,664 |
| Less accumulated depreciation | <u>(21,605)</u> |
| Total capital assets, net | <u>35,608</u> |
| Total assets | <u><u>69,563</u></u> |
| | |
| LIABILITIES | |
| Accounts payable and accrued expenses | \$ <u>6,230</u> |
| Total liabilities | <u>6,230</u> |
| | |
| NET ASSETS | |
| Invested in capital assets | \$ 35,608 |
| Restricted for: | |
| Capital projects | 0 |
| Unrestricted | <u>27,725</u> |
| Total net assets | <u>63,333</u> |
| Total liabilities and net assets | <u><u>\$ 69,563</u></u> |

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

PALM HAROR ACADEMY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|--|-------------------------|--|--|--|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | |
| Instruction | \$ 387,413 | \$ - | \$ - | \$(387,413) |
| General administration | 301,618 | - | - | (301,618) |
| School administration | 357,036 | - | - | (357,036) |
| Pupil transportation | 24,615 | - | - | (24,615) |
| Operation of plant | <u>6,935</u> | - | - | <u>(6,935)</u> |
| Total primary government | <u>\$1,077,617</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$(1,077,617)</u> |
| General revenues: | | | | |
| Federal sources passed through local school district | | | | 73,153 |
| State and local sources | | | | 826,287 |
| Contributions and other revenue | | | | <u>175,099</u> |
| Total general revenues | | | | <u>1,074,539</u> |
| Change in net assets | | | | <u>(3,078)</u> |
| Net assets at beginning of year | | | | <u>66,411</u> |
| Net assets at end of year | | | | <u>\$ 63,333</u> |

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

PALM HARBOR ACADEMY, INC.

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2011

| | <u>General Fund</u> |
|---|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ <u>33,955</u> |
| Total assets | \$ <u>33,955</u> |
| LIABILITIES AND FUND BALANCES | |
| Accounts payable and accrued expenditures | \$ <u>6,230</u> |
| Total liabilities | \$ <u>6,230</u> |
| Fund Balances: | |
| Unrestricted Fund Balance: | |
| Unassigned Fund Balance | <u>27,725</u> |
| Total fund balances | <u>27,725</u> |
| Total liabilities and fund balances | \$ <u>33,955</u> |

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

PALM HARBOR ACADEMY, INC.

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

JUNE 30, 2011

Total fund balances – governmental funds \$ 27,725

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 \$57,213 and the accumulated depreciation is \$21,605. 35,608

Total net assets – governmental activities \$ 63,333

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

PALM HARBOR ACADEMY, INC.

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

FOR YEAR ENDED JUNE 30, 2011

| | General Fund |
|---|--------------------|
| REVENUES | |
| Federal sources passed through local school district | \$ 73,153 |
| State and local sources | 826,287 |
| Contributions and other revenue | <u>175,099</u> |
| Total revenues | <u>\$1,074,539</u> |
| EXPENDITURES | |
| Current: | |
| Instruction | \$ 381,981 |
| General Administration | 301,618 |
| School Administration | 353,925 |
| Pupil transportation | 20,793 |
| Operation of plant | <u>6,935</u> |
| Total expenditures | <u>\$1,065,252</u> |
| Excess (deficiency) of revenues over expenditures | <u>9,287</u> |
| Net changes in fund balances | 9,287 |
| Fund balances (deficit) at beginning of year | \$ 18,438 |
| Fund balances at end of year | <u>\$ 27,725</u> |

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

PALM HARBOR ACADEMY, 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 – total governmental funds \$ 9,287

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

Depreciation (9,998)

Disposals (2,367)

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. As
assets are retired, they are also included in the statement
of activities at net book value.

\$ (12,365)

Change in net assets of governmental activities \$ (3,078)

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

PALM HARBOR ACADEMY, INC.

NOTES TO FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

1. Organization

Palm Harbor Academy, Inc. was incorporated under the laws of the State of Florida in 2009. Criteria for determining if other entities are potential component units of the School which should be reported with the School's basic financial statements are identified and described in the *GASB Codification of Governmental Accounting and Financial Reporting Standards*. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

2. Recently adopted accounting pronouncements

During fiscal year 2011, the School adopted changes issued by the Financial Accounting Standards Board ("FASB") related to disclosure of subsequent events. These changes require the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The School has evaluated subsequent events through August 31, 2011, which is the date the financial statements were available to be issued.

During fiscal year 2011, the School adopted guidance issued by the GASB that incorporates accounting and financial reporting guidance previously contained in the American Institute of Certified Public Accountants ("AICPA") auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The guidance did not have a material impact on the financial statements of the School.

3. Basis of presentation

The School's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB. 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.

PALM HARBOR ACADEMY, INC.

NOTES TO FINANCIAL STATEMENT
(continued)

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 not 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.

4. 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.

PALM HARBOR ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENT
(continued)**

5. 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).

6. Cash and cash equivalents

All cash received by the School is maintained in a demand deposit account and is insured by federal depository insurance. 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.

7. 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. For purposes of recording capital assets, the School has a capitalization threshold of \$750.

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

| | <u>Years</u> |
|------------------------------------|--------------|
| Furniture, fixtures, and equipment | 3 – 7 |
| Vehicles | 5 |

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

8. Revenue sources

Revenues for current operations are received primarily from the District School Board of Flagler 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 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.

PALM HARBOR ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENT
(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 FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey years. 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 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 process is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

9. Use of estimates

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

PALM HARBOR ACADEMY, INC.

NOTES TO FINANCIAL STATEMENT
(continued)

10. Changes in capital assets

Capital asset activity for the year ended June 30, 2011 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|--------------------|-------------------|---------------------------|
| Governmental activities: | | | | |
| Furniture, fixtures, and equipment | \$ 30,916 | \$ 0 | \$ (2,367) | \$ 28,549 |
| Vehicles | 28,664 | 0 | | 28,664 |
| Total capital assets at historical cost | <u>\$ 59,580</u> | <u>0</u> | <u>\$ (2,367)</u> | <u>57,213</u> |
| Less accumulated depreciation for: | | | | |
| Furniture, fixtures, and equipment | \$ (7,785) | (6,176) | - | (13,961) |
| Vehicles | <u>(3,822)</u> | <u>(3,822)</u> | - | <u>(7,644)</u> |
| Total accumulated depreciation | <u>(11,607)</u> | <u>(9,998)</u> | - | <u>(21,605)</u> |
| Governmental activities capital assets, net | <u>\$ 47,973</u> | <u>\$ (9,998)</u> | <u>\$ (2,367)</u> | <u>\$ 35,608</u> |

Depreciation expense was charged to functions as follows:

| | |
|--|-----------------|
| Governmental activities: | |
| Instruction | \$ 3,065 |
| School administration | \$ 3,111 |
| Pupil transportation | <u>\$ 3,822</u> |
| Total governmental activities depreciation expense | <u>\$ 9,998</u> |

PALM HARBOR ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENT
(continued)**

11. Risk Management Program

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

12. 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 collectability of any related receivable as of June 30, 2011 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.

13. Legal matters

In the normal course of conducting its operations, the School occasionally becomes party to various other 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 statement.

14. Fund balance classification

For the year ending June 30, 2011, the School implemented Government Auditing Standard (GASB") No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable fund balance – amounts that are not in nonspendable form (such as inventory and prepaid expense) or are required to be maintained intact.

PALM HARBOR ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENT
(continued)**

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the School itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the School takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the School intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The School would typically use restricted fund balances first, followed by committed resources, and the assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

PALM HARBOR ACADEMY, INC.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Budget Amounts</u> <u>Final</u> | <u>Actual</u> <u>(Budgetary</u> <u>Basis)</u> | <u>Variance with</u> <u>Final Budget –</u> <u>Positive</u> <u>(Negative)</u> |
|--|---------------------------------------|---|---|
| REVENUES | | | |
| State and local sources | \$ 820,000 | \$ 826,287 | \$ 6,287 |
| Contributions and other revenue | <u>250,000</u> | <u>248,252</u> | <u>(1,748)</u> |
| Total revenues | <u>1,070,000</u> | <u>1,074,539</u> | <u>4,539</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Instruction | 286,000 | 381,981 | (95,981) |
| General Administration | 285,000 | 301,618 | (16,618) |
| School Administration | 171,000 | 353,925 | (182,925) |
| Pupil transportation | 64,000 | 20,793 | 43,207 |
| Operation of plant | 264,000 | 6,935 | 257,065 |
| Capital outlay | <u>0</u> | <u>0</u> | <u>0</u> |
| Total expenditures | <u>\$1,070,000</u> | <u>\$1,065,252</u> | <u>\$ 4,748</u> |
| Excess of revenues over Expenditures | <u>0</u> | <u>9,287</u> | <u>\$ 9,287</u> |
| Net changes in fund balances | <u>0</u> | <u>9,287</u> | <u>9,287</u> |
| Fund balances (deficit) at beginning of year | 24,688 | 24,668 | - |
| Fund balances at end of year | <u>\$ 24,688</u> | <u>\$ 33,955</u> | <u>\$ 9,287</u> |

Sandy & Nelson, P.A.
Certified Public Accountants

Members:
American Institute of
Certified Public Accountants

50 Leanni Way
Suite C-2
Palm Coast, FL 32137

Florida Institute of
Certified Public Accountants

Phone (386) 445-4375
Fax (386) 445-8053

**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 Palm Harbor Academy, Inc., a Charter School
And Component Unit of the District School Board of Flagler County, Florida

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palm Harbor Academy, In. (the "School"), a charter school and component unit of the District School Board of Flagler 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 August 31, 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 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 of 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 considered 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of School, the Board of Directors, the District School Board of Flagler 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 than these specified parties.

Sandy Nelson, PA

Palm Coast, Florida

August 31, 2011

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

Sandy & Nelson, P.A.
Certified Public Accountants

Members:
American Institute of
Certified Public Accountants

50 Leanni Way
Suite C-2
Palm Coast, FL 32137

Florida Institute of
Certified Public Accountants

Phone (386) 445-4375
Fax (386) 445-8053

To the Board of Directors of Palm Harbor Academy, Inc, a Charter School
and Component Unit of the District School Board of Flagler County, Florida

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palm Harbor Academy, Inc. (the "School") as of and for the year ended June 30, 2011, and have issued our report thereon dated August 31, 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 August 31, 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. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, as noted below under the heading "Status of Prior Year Findings and Recommendations".
- 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. We have no recommendations to improve financial management in this initial audit.

- 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 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 have an inconsequential effect on financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse 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 Palm Harbor Academy, 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 the 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)(3)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures as of June 30, 2010, which included calculation and analysis of certain financial indicators we considered relevant to the School. Our financial condition assessment procedures did not include the use of benchmarks. It is management’s responsibility to monitor the School’s financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management.

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

Sandy Nelson, PA

Palm Coast, Florida
August 31, 2011