

SOUTH MCKEEL ACADEMY, INC.

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

**Financial Statements
with Independent Auditors' Reports Thereon**

June 30, 2012



M^CCRADY | HESS | RUTH
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

	<u>Page</u>
Management's Discussion and Analysis	1 – 6
Report of Independent Auditors on Basic Financial Statements and Supplementary Information	7 – 8
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Balance Sheet – Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Notes to Financial Statements	15 – 27
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	28
Budgetary Comparison Schedule – Special Revenue Fund	29
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30 – 32
Additional Information Required by Rules of the Florida Auditor General, Chapter 10.850, <i>Audits of Charter Schools and Similar Entities</i>:	
Management Letter	33 – 35
Management's Statement of Explanation or Rebuttal Letter	36

SOUTH MCKEEL ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of South McKeel Academy, Inc. (the "School") offers the following narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2012. Readers are encouraged to use this information in conjunction with information furnished in the School's financial statements. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplemental information.

FINANCIAL HIGHLIGHTS

- ❖ The School's net assets increased from prior year.
- ❖ For the fiscal year ended June 30, 2012, the School's revenues exceeded expense by approximately \$374,000, which decreased from the prior year when revenues exceeded expenses by approximately \$693,000.
- ❖ The School's general fund balance remained strong at \$2,132,828, as the School's revenues and other financial sources exceeded expenditures by approximately \$411,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to School's basic financial statements. The School's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. The basic financial statements present two different views of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the understanding of the financial condition of School.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the School's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status as a whole.

The two government-wide statements report the School's net assets and the current year changes. Net assets are the difference between the School's total assets and total liabilities. Measuring net assets is one way to evaluate the School's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities 2) business-type activities and 3) component units. The governmental activities include the School's basic services. The business-type activities are those that the School charges for certain services. For the year ended June 30, 2012, the School had no business-type activities or component units.

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the operations of the School are presented in governmental funds only.

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The School's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements provide a detailed short-term view of the financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The School adopts an annual budget for its General Fund, as required by the Florida Statutes. The budget is a legally adopted by management of the School and its Board. Budgetary comparison schedules have been included as part of the required supplementary information. The budgetary comparison schedule shows four columns: 1) the original budget as adopted by the board 2) the final budget as amended by the board 3) the actual resources and ending balances in the General Fund and 4) the difference or variance between the final budget and the actual resources and charges.

Notes to Financial Statements

The notes to financial statements provide additional information essential to the full understanding of the information reported in the government-wide and fund financial statements. The notes to the financial statements start on pages 15 of this report.

Other Reports

This report also includes the Independent Auditors' Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

GOVERNMENT-WIDE ANALYSIS OF THE SCHOOL

Net Assets

The School's combined net assets as of June 30, 2012 and 2011 are summarized as follows:

	Governmental Activities		Increase
	2012	2011	(Decrease)
Current and other assets	\$ 2,257,984	\$ 1,758,380	\$ 499,604
Capital assets, net	456,109	559,146	(103,037)
Total assets	2,714,093	2,317,526	396,567
Current and other liabilities	247,178	194,815	52,363
Long-term liabilities	150,000	180,000	(30,000)
Total liabilities	397,178	374,815	22,363
Net assets:			
Invested in capital	456,109	559,146	(103,037)
Restricted for:			
Food services	64,092	-	64,092
Unrestricted	1,796,714	1,383,565	413,149
Total net assets	\$ 2,316,915	\$ 1,942,711	\$ 374,204

Current and other assets increased due to an increase in cash from the current year operating surplus. Capital assets decreased a result of current year depreciation expense exceeded capital asset additions. Current and other liabilities increased due to the timing of payments for accounts payable. Long-term liabilities decreased due to the annual principal payment. The increase in total net assets is due to the current year operating surplus.

Change in Net Assets

The School's total revenues exceeded total expenses by approximately \$374,000 in fiscal 2012—see table below.

	Governmental Activities		Increase
	2012	2011	(Decrease)
Revenues:			
Federal sources	\$ 209,069	\$ 648,643	\$ (439,574)
State and local sources	7,106,497	7,515,033	(408,536)
Contributions and other revenue	1,082,059	629,849	452,210
Total revenues	<u>8,397,625</u>	<u>8,793,525</u>	<u>(395,900)</u>
Expenses:			
Instruction	4,240,992	4,697,067	(456,075)
Pupil personnel services	90,306	111,167	(20,861)
Instructional media services	24,184	27,225	(3,041)
Instructional staff training	26,709	37,246	(10,537)
Board	57,110	70,680	(13,570)
General administration	45,023	43,113	1,910
School administration	1,027,315	1,051,322	(24,007)
Transportation services	339,465	381,995	(42,530)
Food services	383,379	72	383,307
Central services	61,118	50,960	10,158
Operation of plant	1,690,260	1,601,869	88,391
Maintenance of plant	16,185	13,859	2,326
Community services	780	4,000	(3,220)
Interest	20,595	9,601	10,994
Total expenses	<u>8,023,421</u>	<u>8,100,176</u>	<u>(76,755)</u>
Change in net assets	<u>\$ 374,204</u>	<u>\$ 693,349</u>	<u>\$ (319,145)</u>

Certain reclassifications were made to the prior year amounts to conform to the 2012 classifications.

Federal revenue decreased primarily due to the Education Jobs Funds and Federal Stimulus funds awarded during fiscal year 2011. The decrease state and local sources is due to an overall decrease in state allocated funding. Contributions and other income increased due to an increase in student activity revenues and the School implementing the food services program.

The School experienced overall decreases in instruction due to a decrease personnel salaries and related benefits. In fiscal year 2011 the School purchases additional textbooks and materials, these expenses did not recur in the fiscal 2012. The increase in food services is due to the School implementing the food service program in the current fiscal year.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The focus of School's governmental funds is to provide information on near term inflows, outflows, and balances of usable resources. Such information is useful in assessing School's financing requirements. Specifically, unrestricted fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the School completed the year, its governmental funds reported a combined fund balance of \$2,132,828. Both revenues and expenditures changed overall for the same reason described above.

General and Special Revenue Funds Budgetary Highlights

The School's budgets were prepared by management and approved by the Board. The School did not make revision from their initial budgets.

In the general fund, actual revenues exceeded budget amounts by approximately \$157,000, primarily due to student activity revenues are not included it the School's budget. Expenditures were approximately \$215,000 less than budgeted amounts, primarily due to an over budget of salaries and related benefit expenses.

In the special revenue fund, budgeted revenues exceeded budgeted amount by approximately \$76,000, primarily due to an under budget food service revenues. Budgeted expense were approximately \$6,000 more them budgeted totals, primarily due to under budgeted food services expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2012, the School had invested approximately \$973,000, in capital assets.

	Governmental Activities		Increase
	2012	2011	(Decrease)
Leasehold improvements	\$ 384,071	\$ 384,071	\$ -
Furniture, fixtures, and equipment	589,450	565,561	23,889
Total capital assets	<u>\$ 973,521</u>	<u>\$ 949,632</u>	<u>\$ 23,889</u>

More detailed information about the School's capital assets is presented in Note 2 to the financial statements.

Long-Term Debt

As of June 30, 2012, the School has \$180,000 note payable outstanding, a decrease of approximately \$30,000 from the prior year. For more detailed information about the School's long-term liability, see Note 3 in the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Budget Highlights for the Fiscal Year Ended June 30, 2013

Amounts available for appropriation in the general fund are approximately \$7.3 million, a decrease of \$200,000 over the actual 2012 amount. The change is primarily due to the internal account revenue is not included in the budget.

Budgeted expenditures are expected to increase slightly to approximately \$7.2 million from the fiscal 2012 actual amount. The change is due primarily to an increase in overall personnel and related benefit expenses.

If these estimates are realized, the School's general fund balance is expected to increase by the close of fiscal 2013.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 301 E. Peachtree Street, Lakeland, Florida, 33803.



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

To the Board of Directors of South McKeel Academy, 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, each major fund and the aggregate remaining fund information of South McKeel Academy, 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, 2012, 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 the 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 South McKeel Academy, Inc. as of June 30, 2012, 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 29, 2012 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 and budgetary comparison information on pages 1 through 6, 28 and 29 are 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.

MC CRADY, HESS + RUTH

Maitland, Florida
September 29, 2012

SOUTH MCKEEL ACADEMY, INC.

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

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,814,834
Certificates of deposit	307,179
Other receivables	95
Other assets	135,876
Capital assets:	
Leasehold improvements	384,071
Furniture, fixtures, and equipment	589,450
Less accumulated depreciation	<u>(517,412)</u>
Total capital assets, net	<u>456,109</u>
Total assets	<u><u>\$ 2,714,093</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 41,710
Due to related party	83,446
Compensated absence	92,022
Long-term liabilities:	
Portion due or payable within one year:	
Note payable	30,000
Portion due or payable after one year:	
Note payable	<u>150,000</u>
Total liabilities	<u>397,178</u>
NET ASSETS	
Invested in capital assets, net of related debt	456,109
Restricted for:	
Food services	64,092
Unrestricted	<u>1,796,714</u>
Total net assets	<u>2,316,915</u>
Total liabilities and net assets	<u><u>\$ 2,714,093</u></u>

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

SOUTH MCKEEL ACADEMY, 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, 2012

		Program Specific Revenues			Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
	Expenses					
Governmental Activities:						
Instruction	\$ 4,240,992	\$ -	\$ 66,861	\$ -	\$ (4,174,131)	\$ (4,174,131)
Pupil personnel services	90,306	-	-	-	(90,306)	(90,306)
Instructional media services	24,184	-	-	-	(24,184)	(24,184)
Instructional staff training	26,709	-	-	-	(26,709)	(26,709)
Board	57,110	-	-	-	(57,110)	(57,110)
General administration	45,023	-	-	-	(45,023)	(45,023)
School administration	1,027,315	-	-	-	(1,027,315)	(1,027,315)
Food services	383,379	300,769	142,208	-	59,598	59,598
Central services	61,118	-	-	-	(61,118)	(61,118)
Pupil transportation services	339,465	-	-	-	(339,465)	(339,465)
Operation of plant	1,690,260	-	-	379,395	(1,310,865)	(1,310,865)
Maintenance of plant	16,185	-	-	-	(16,185)	(16,185)
Community services	780	-	-	-	(780)	(780)
Interest	20,595	-	-	-	(20,595)	(20,595)
Total primary government	<u>\$ 8,023,421</u>	<u>\$ 300,769</u>	<u>\$ 209,069</u>	<u>\$ 379,395</u>	<u>(7,134,188)</u>	<u>(7,134,188)</u>
General revenues:						
State and local sources					6,727,102	6,727,102
Contributions and other revenue					<u>781,290</u>	<u>781,290</u>
Total general revenue					<u>7,508,392</u>	<u>7,508,392</u>
Changes in net assets					<u>374,204</u>	<u>14,642,580</u>
Net assets at beginning of year					<u>1,942,711</u>	<u>1,942,711</u>
Net assets at end of year					<u>\$ 2,316,915</u>	<u>\$ 16,585,291</u>

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

SOUTH MCKEEL ACADEMY, INC.

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

Balance Sheet - Governmental Funds

June 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,648,335	\$ 166,499	\$ 1,814,834
Certificates of deposit	307,179	-	307,179
Other receivables	95	-	95
Due from special revenue	102,407	-	102,407
Other assets	135,876	-	135,876
Total assets	<u>\$ 2,193,892</u>	<u>\$ 166,499</u>	<u>\$ 2,360,391</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 41,710	\$ -	\$ 41,710
Due to related party	83,446	-	83,446
Due to general fund	-	102,407	102,407
Total liabilities	<u>125,156</u>	<u>102,407</u>	<u>227,563</u>
FUND BALANCES			
Nonspendable:			
Other current assets:	135,876	-	135,876
Assigned:			
Designated for School-based student activity organizations	187,893	-	187,893
Food service	-	64,092	64,092
Spendable:			
Unassigned:	<u>1,744,967</u>	<u>-</u>	<u>1,744,967</u>
Total fund balances	<u>2,068,736</u>	<u>64,092</u>	<u>2,132,828</u>
Total liabilities and fund balances	<u>\$ 2,193,892</u>	<u>\$ 166,499</u>	<u>\$ 2,360,391</u>

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

SOUTH MCKEEL ACADEMY, 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, 2012

Total fund balances - governmental fund	\$ 2,132,828
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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 fund. The cost of the capital assets are \$973,521 and the accumulated depreciation is \$517,412.	456,109
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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.	(92,022)
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Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at the end of the period consist of:	
Note payable	<u>(180,000)</u>

Total net assets - governmental activities	<u>\$ 2,316,915</u>
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The accompanying notes to financial statements are an integral part of this statement.

SOUTH MCKEEL ACADEMY, INC.

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

**Statement of Revenues, Expenditures and
Change in Fund Balances of Governmental Funds**

For the Year Ended June 30, 2012

	General Fund	Capital Projects Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Federal sources passed through local school district	\$ -	\$ -	\$ 209,069	\$ -	\$ 209,069
State and local sources	6,727,102	379,395	-	-	7,106,497
Contributions and other revenue	781,290	-	300,769	-	1,082,059
Total revenues	<u>7,508,392</u>	<u>379,395</u>	<u>509,838</u>	<u>-</u>	<u>8,397,625</u>
EXPENDITURES					
Current:					
Instruction	4,062,539	-	66,861	-	4,129,400
Pupil personnel services	90,306	-	-	-	90,306
Instructional media services	22,651	-	-	-	22,651
Instructional staff training	26,709	-	-	-	26,709
Board	57,110	-	-	-	57,110
General administration	45,023	-	-	-	45,023
School administration	998,766	-	-	-	998,766
Food services	-	-	373,145	-	373,145
Central services	61,118	-	-	-	61,118
Pupil transportation services	339,465	-	-	-	339,465
Operation of plant	1,308,352	379,395	-	-	1,687,747
Maintenance of plant	16,185	-	-	-	16,185
Community services	780	-	-	-	780
Debt services:					
Principal	-	-	-	30,000	30,000
Interest	-	-	-	20,595	20,595
Capital outlay	23,889	-	-	-	23,889
Total expenditures	<u>7,052,893</u>	<u>379,395</u>	<u>440,006</u>	<u>50,595</u>	<u>7,922,889</u>
Excess (deficiency) of revenues over expenditures	<u>455,499</u>	<u>-</u>	<u>69,832</u>	<u>(50,595)</u>	<u>474,736</u>
OTHER FINANCING SOURCES (USES)					
Operating transfer in	-	-	-	50,595	50,595
Operating transfer out	(50,595)	-	-	-	(50,595)
Total other financing sources	<u>(50,595)</u>	<u>-</u>	<u>-</u>	<u>50,595</u>	<u>-</u>
Net changes in fund balances	404,904	-	69,832	-	474,736
Fund balances at beginning of year	1,658,092	-	-	-	1,658,092
Fund balances at end of year	<u>\$2,062,996</u>	<u>\$ -</u>	<u>\$ 69,832</u>	<u>\$ -</u>	<u>\$ 2,132,828</u>

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

SOUTH MCKEEL ACADEMY, INC.

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

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds**

For the Year Ended June 30, 2012

Net changes in fund balances - total governmental funds	\$	474,736
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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 assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$126,926) exceeds capital outlays (\$23,889) in the current period.	(103,037)
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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 governmental funds until they are paid out. This is the amount by which payouts exceed accruals in the current year.	(27,495)
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Principle payments on long-term debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.	30,000
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Change in net assets of governmental activities	\$	374,204
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The accompanying notes to financial statements are an integral part of this statement.

SOUTH MCKEEL ACADEMY, 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, 2012

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

South McKeel Academy, Inc. (the "School") is a not-for-profit corporation organized pursuant to chapter 617, Florida Statutes, the Florida Not-for-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of at least eight members.

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 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").

Charter Contract

The current charter expires June 30, 2016 and may be renewed for a maximum of an additional fifteen years by mutual written agreement between the School and the School Board. Upon the expiration of the charter, the School Board may elect 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. However, the School Board may terminate the current charter at any time 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.

Basis of Presentation

Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – *Audits for States and Local Governments* and provisions in the Florida Statutes, the School is considered a governmental organization for financial statement reporting purposes.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School in a manner similar to those of a private-sector business. The statement of net assets and statement of activities are designed to provide financial information as a whole about the School on an accrual basis of accounting. The statement of net assets provides information about the School's financial position, its assets and liabilities, using an economic resources measurement focus.

SOUTH MCKEEL ACADEMY, INC.

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

Notes to Financial Statements (continued)

The statement of activities presents a comparison between direct expenses and program revenue for each function or program of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function, therefore, are clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of goods and services offered by the program and grants and contributions that are restricted for meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements

The governmental fund financial statements report detailed information about the School's most significant funds, not the School as a whole. A fund is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance related requirements. Certain funds are established by law while others are created by grant agreements. The following are individual governmental funds that are reported in the fund financial statements:

- General Fund – is the School's primary operating fund accounting for all financial resources of the school, except those required to be accounted for in another fund.
- Capital Projects Fund – to account for all resources for the acquisition of capital items by the School purchased with capital outlay funds.
- Special Revenue Fund – to account for the proceeds of specific revenue sources and federal grants restricted by law or administrative action to expenditure for specific purposes.
- Debt Service Fund – to account for the accumulation of resources for, and payment of, general long-term debt principal, interest and related cost.

For the purpose of these statements, the general, capital outlay and special revenue funds are considered major funds. The debt service funds is a non-major fund and reported as other governmental funds.

Basis of Accounting

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

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

Governmental fund financial statements are reported using the modified accrual basis of accounting. Under this method, revenues, except for certain grant revenues, are recognized

SOUTH MCKEEL ACADEMY, INC.

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

**Notes to Financial Statements
(continued)**

when they become measurable and available. Revenues are considered to be available when they are collectable within a current period. The School considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisition of capital leases are reported as other financing sources.

Budgetary Basis Accounting

Budgets are prepared using the modified accrual basis of accounting and the governing board must approve all budgets and amendments. During the fiscal year, expenditures were controlled at the object level. Budgets may be amended by resolution of the Board prior to the date of the annual report.

Cash and Cash Equivalents 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.

Under current regulations, non-interest bearing cash deposits at FDIC-insured institutions are fully insured through December 31, 2012. All cash and cash equivalent accounts held by the School are non-interest bearing and therefore, fully insured by the FDIC as of June 30, 2012.

Interfund Receivables and Payables

Activities between the funds are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. The general fund has a recorded total receivable of approximately \$102,000 which are related to amounts paid by the general fund on behalf of the special revenue funds.

Interfund transfers

The school reports its debt service fund expenditures in the other governmental funds. For the year ended June 30, 2012, the general funds transferred approximately \$50,000 to the other governmental funds for the current year debt service payments.

SOUTH MCKEEL ACADEMY, 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

The School's capital assets with useful lives of more than one year are stated at historical costs and are reported in the statement of net assets in the government-wide financial statements. Donated capital assets are recorded at their estimated fair value on the date of donated. The School capitalizes assets with a cost of \$750 or more. Expenditures of normal maintenance and repair that do not add to the assets value or extend the useful live are not capitalized. Depreciation is computed using the straight-line method. Estimated useful lives of the assets are as follows:

	<u>Years</u>
Buildings and improvements	10 -20
Furniture, fixture and equipment	3 -10

Long-Term Liabilities

Long-term liabilities financed by resources to be received in the future by the general fund are reported in the government-wide financial statements, not in the general fund. Changes in long-term liabilities for the current year are reported in Note 4.

Compensated Absences

Compensated absences (i.e. paid absences for employee vacation leave and sick leave) are recorded as an expenditure in the governmental funds when leave is used or when accrued as payable to employees entitled to cash payment in lieu of taking leave. In the government-wide financial statements, compensated absences are recorded as an expense when earned by the employee.

Net assets and Fund Balance Classifications

Government-wide financial statements

Net assets are classified and reported in three components:

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

SOUTH MCKEEL ACADEMY, INC.

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

**Notes to Financial Statements
(continued)**

Fund financial statements

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

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

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

Order of Fund Balance Spending Policy

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

SOUTH MCKEEL ACADEMY, INC.

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

**Notes to Financial Statements
(continued)**

Revenue Sources

Revenues for operations are provided primarily from the District School Board of Polk County, Florida pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the Charter and Section 1002.33, Florida Statutes, the School reports the number of full-time equivalents (FTE) students and related data to the School District. The School Board receives a 5% administrative fee from the School, which is withheld from the respective Florida Education Finance Program (FEFP) payments. The administrative expense is reflected as a general administrative expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds. The administrative fee is calculated on the FEFP revenue up to 250 students. The difference between the actual expense and the expense calculated on total FEFP revenue is restricted for capital outlay expenditures. As of June 30, 2012, amounts in excess of 250 students were applied to current year capital outlay expenditures and therefore, no amounts are restricted at year end.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE 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 the FDOE under FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey period. The FDOE may also adjust subsequent fiscal period allocations based on an audit of the School's compliance in determining and reporting FTE and related data. Generally, such adjustments are treated as reduction or additions of revenues in the year when the adjustments are made.

The basic amount of funding through the FEFP under Section 1011.62 is calculated based on (1) unweighted FTE, multiplied by (2) the cost factor for each program multiplied by (3) the base student allocation established by the Florida legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2., Florida Statutes. For the year ended June 30, 2012, the School reported 1145.50 unweighted FTE.

The School receives state funds through the District under charter school capital outlay funding pursuant to Section 1013.62, Florida Statutes and amounts received are based on the School's enrollment during the fiscal year. Funds received under this program are restricted to capital outlay expenditures, as detailed in the Florida statutes.

The School received additional funding under other federal and state grants. This assistance is generally received based on applications submitted to various granting agencies. For federal and state grants in which funding is awarded based on incurring eligible expenditures, revenue is recognized as the amount of eligible expenditures have been incurred.

SOUTH MCKEEL ACADEMY, INC.

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

**Notes to Financial Statements
(continued)**

Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States, 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 revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

2 CAPITAL ASSETS

Capital assets as of June 30, 2012 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Governmental activities:				
Leasehold improvements	\$ 384,071	\$ -	\$ -	\$ 384,071
Furniture, fixtures, and equipment	565,561	23,889	-	589,450
Total capital assets	949,632	23,889	-	973,521
Less accumulated depreciation for:				
Leasehold improvements	(44,463)	(23,424)	-	(67,887)
Furniture, fixtures, and equipment	(346,023)	(103,502)	-	(449,525)
Total accumulated depreciation	(390,486)	(126,926)	-	(517,412)
Governmental activities capital assets, net	<u>\$ 559,146</u>	<u>\$ (103,037)</u>	<u>\$ -</u>	<u>\$ 456,109</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction	\$ 104,868
Instructional media services	1,533
School administration	7,778
Food services	10,234
Operating of plant	2,513
Total governmental activities depreciation expense	<u>\$ 126,926</u>

SOUTH MCKEEL ACADEMY, INC.

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

**Notes to Financial Statements
(continued)**

3 LONG-TERM LIABILITY

The long-term liability consists of the following as of June 30, 2012:

Related party note payable; interest at 4% due quarterly;
principal payments of \$30,000 due before June 30 each
year; balance due in full by June 30, 2018

Balance outstanding at the beginning of year	\$ 210,000
Additions	-
Reductions	<u>(30,000)</u>
Balance outstanding at the end of year	<u>\$ 180,000</u>
Amount due within one year	<u>\$ 30,000</u>

Interest paid during the year ended June 30, 2012 totaled \$8,423.

Future debt service requirements related to the long-term liability are as follows:

Year ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	30,000	8,556	38,556
2014	30,000	7,333	37,333
2015	30,000	6,111	36,111
2016	30,000	4,889	34,889
2017	30,000	2,444	32,444
2018	30,000	1,222	31,222
	<u>\$ 180,000</u>	<u>\$ 30,555</u>	<u>\$ 210,555</u>

SOUTH MCKEEL ACADEMY, INC.

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

Notes to Financial Statements (continued)

4 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

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

District School Board of Polk County, Florida:	
Florida Education Finance Program	\$ 4,099,017
Class size reduction	1,284,740
Transportation	339,253
Capital Outlay	379,395
Supplemental academic instruction	263,528
Discretionary millage funds	224,811
Discretionary local efforts	202,261
ESE guaranteed allocation	119,724
Instructional materials	87,075
School Recognition Funds	79,555
Safe Schools	23,334
Teacher lead	12,172
Prior year adjustment	8,903
Discretionary lottery funds	3,584
Proration to funds available	<u>(20,855)</u>
Total	<u>\$ 7,106,497</u>

The administrative fee paid to the School Board during the year ended June 30, 2012 totaled approximately \$45,000, 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.

7 RELATED PARTY TRANSACTIONS

In order to secure necessary financing and other commitments shortly after the inception of the School, the Board of Directors of a related party, McKeel Academy of Technology Inc. ("McKeel Academy"), voted to accept financial and administrative responsibility for the School. In addition, McKeel Academy agreed to provide direct financing to the School through a note payable agreement. Further details of this financing are described in note 4. The balance of the note payable totaled \$180,000 as of June 30, 2012.

The School receives all pupil transportation services from McKeel Academy in exchange for transportation funds received by the state. During fiscal 2012 McKeel Academy charged the School approximately \$339,000 for transportation services, which is reflected as a pupil transportation services expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances of governmental funds.

SOUTH MCKEEL ACADEMY, INC.

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

**Notes to Financial Statements
(continued)**

During fiscal 2012, McKeel Academy charged the School approximately \$346,000 for administrative, fiscal and accounting services 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 of governmental funds. These fees charged to the school are based on the student population. The School has an amount due to McKeel Academy of approximately \$83,000, which is reflected as due to related party at June 30, 2012.

Effective August 1, 2010, the School entered into a lease agreement with McKeel Academy for a portion of the school building and facility. The title to the building and facilities remains with McKeel Academy. The initial term of the lease expired June 30, 2011 and automatically renewed for a term of twenty years ending June 30, 2031. The annual rental will be \$98,000 which will be paid in equal monthly payments.

8 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverage are 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.

9 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 collectability of any related receivable at year end may be impaired.

In the opinion of the School, there are no significant contingent liabilities related 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.

SOUTH MCKEEL ACADEMY, INC.

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

**Notes to Financial Statements
(continued)**

Operating lease commitments

The School leases certain property under non-cancelable operating leases. These leases contain varying renewal options and require the School to pay insurance and other costs. Aggregate remaining minimum rental commitments as of June 30, 2012 under these leases are summarized as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2013	\$ 1,043,525
2014	1,074,829
2015	1,107,067
2016	1,140,285
2017	1,174,498
2018-2022	6,422,614
2023-2027	7,445,572
2028-2030	3,440,207
Total future minimum lease payments	<u><u>\$ 22,848,597</u></u>

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.

10 RETIREMENT PROGRAM

The Florida Retirement System (FRS) covers all regular employees of the School. The FRS offers employees a defined benefit retirement plan and a defined contribution program. The School is required to make contributions in accordance with rates established by the Florida Legislature. Essentially, all regular employees of participating employers are eligible and must enroll as members of FRS.

Most employees working for the School are covered by a State-administered cost-sharing multiple-employer defined benefit retirement plan (Plan) under FRS. Plan provisions are established by Chapters 121 and 112, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions, and benefits are defined and described in detail. Benefits in the defined benefit plan vest at specific ages or number of years of services depending upon the employee's classification. Under the regular classification in the defined benefit plan vest at six years of services. 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

SOUTH MCKEEL ACADEMY, INC.

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

**Notes to Financial Statements
(continued)**

adjustments, as well as supplements for health-care insurance and, for certain employees, a supplement 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, is offered to employees of the School. DROP 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 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 Fund and accrue interest. The School had no DROP participants during fiscal year 2012.

Defined Contribution Plan

The Public Employee Optional Retirement Program (PEORP) is administered by FRS as an option to the defined benefit plan. It is self-directed by the employee. The Employees have the responsibility of selecting how their funds are invested within the approved set of investment choices and may take their funds when they leave FRS. Employer contributions are defined by law, but the ultimate benefit depends in part of the performance of the investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, Etc.). The School had no PEORP participants during fiscal year 2012.

Funding Policy

The Contribution rates for Plan members are established and may be amended, by the State of Florida. During fiscal year 2012, contribution rates were as follows:

Class or Plan	Percentage of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3%	4.91%
Florida Retirement System, Reemployed Retiree	(B)	(B)

(A) Employer rate includes 1.11% for the post-employment health insurance supplement and 0.03% for administrative cost of the Public Employee Optional Retirement Program

(B) Contribution rates are dependent upon the retirement class in which reemployed.

The School's liability to the defined benefit plan and the defined contribution 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 contributions to the defined benefit plan for the fiscal years ended June 30, 2012, 2011 and 2010 totaled approximately \$162,000, \$360,000 and 283,086.

SOUTH MCKEEL ACADEMY, INC.

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

**Notes to Financial Statements
(continued)**

Pension Reporting

The financial statements and required supplemental information of the FRS are included in the comprehensive annual financial report of the State of Florida which may be obtained by contacting the Florida State Chief Financial Officer's Office in Tallahassee, Florida. Also, an annual report of FRS that includes its financial statements, required supplemental information, actuarial report, and other relevant information may be obtained from the State of Florida, Division of Retirement, in Tallahassee, Florida.

11 INCOME TAXES

The School qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is therefore, exempt from income taxes. Accordingly, no tax provision has been made in the accompanying financial statements. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to the financial statements. The School's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

12 SUBSEQUENT EVENTS

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through September 29, 2012, which is the date the financial statements were available to be issued.

SOUTH MCKEEL ACADEMY, INC.**A Charter School and Component Unit of the
District School Board of Polk County, Florida****Required Supplementary Information****Budgetary Comparison Schedule - General Fund****For the Year Ended June 30, 2012**

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
State and local sources	\$ 6,673,524	\$ 6,673,524	\$ 6,727,102	\$ 53,578
contributions and other revenue	678,250	678,250	781,290	103,040
Total revenues	7,351,774	7,351,774	7,508,392	156,618
EXPENDITURES				
Current:				
Instruction	4,197,885	4,197,885	4,062,539	(135,346)
Pupil personnel services	96,722	96,722	90,306	(6,416)
Instructional media services	31,357	31,357	22,651	(8,706)
Instructional staff training	40,500	40,500	26,709	(13,791)
Board	70,000	70,000	57,110	(12,890)
General administration	30,000	30,000	45,023	15,023
School administration	1,021,089	1,021,089	998,766	(22,323)
Central services	61,695	61,695	61,118	(577)
Pupil transportation services	359,287	359,287	339,465	(19,822)
Operation of plant	1,315,728	1,315,728	1,308,352	(7,376)
Maintenance of plant	20,000	20,000	16,185	(3,815)
Community Services	-	-	780	780
Capital Outlay	-	-	23,889	23,889
	7,244,263	7,244,263	7,052,893	(215,259)
Excess of revenues over expenditures	107,511	107,511	455,499	371,877
OTHER FINANCING SOURCES (USES)				
Operating transfer out	(38,000)	(38,000)	(50,595)	(12,595)
Total other financing sources	(38,000)	(38,000)	(50,595)	(12,595)
Net changes in fund balances	69,511	69,511	404,904	359,282
Fund balances at beginning of year	1,658,092	1,658,092	1,658,092	-
Fund balances at end of year	\$ 1,727,603	\$ 1,727,603	\$ 2,062,996	\$ 359,282

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

SOUTH MCKEEL ACADEMY, INC.

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

Budgetary Comparison Schedule - Special Revenue Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Federal sources passed through local school district	\$ 433,832	\$ 433,832	\$ 209,069	\$ (224,763)
Contributions and other revenue	-	-	300,769	300,769
Total revenues	433,832	433,832	509,838	76,006
EXPENDITURES				
Current:				
Instruction	87,832	87,832	66,861	(20,971)
Food services	346,000	346,000	373,145	27,145
	433,832	433,832	440,006	6,174
Excess of revenues over expenditures	-	-	69,832	69,832
Fund balances at beginning of year	-	-	-	-
Fund balances at end of year	\$ -	\$ -	\$ 69,832	\$ 69,832

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



**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 South McKeel Academy, 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, each major fund and the aggregate remaining fund information of South McKeel Academy, 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, 2012, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 29, 2012. 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

Management of the School is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the following deficiency to be material weaknesses:

2012-01: Segregation of Duties: Our evaluation of internal controls and inquiries with management disclosed that one person had primary responsibility for the majority of the accounting functions related to cash management including wire transfers, maintenance of the general ledger, and financial reporting for the first nine months of the year. In addition, a new payroll system was implemented during fiscal 2012 and proper segregation of duties and policies and procedures were not implemented according to management until the last quarter of the year. We recognize this situation was primarily the result of the resignation of the controller in the first month of the year and other personnel changes. Although management implemented new procedures and additional personnel, internal controls are evaluated throughout the year and most of the changes were not made until several months into the year. We recommend that management continue to regularly evaluate the accounting personnel assignments to ensure proper segregation of duties and implement controls during staffing changes.

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

2012-02: Food Service Receipts: During our audit procedures, we noted a lack of proper documentation supporting a majority of the monies collected and deposited for food services, which was controlled at the School level. We recognize management did implement procedures toward the end of the fiscal year to provide support for the monies collected and deposited. We recommend management to continue to monitor and maintain adequate support for monies collected and deposited for food services.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's basic 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 the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*:

2012-03: Board Training: Florida Statutes 1002.33(9)(j), states that all new board members should complete the required board governance training within 90 days of their appointment to the board. After the initial training, each member is required to complete a refresher training course within the subsequent 3 period. During our procedures, we noted a board member had not completed the governance training within the required time frame. We recommend that the board member complete the training immediately and submit the required documents to the School Board and Florida Department of Education.

The School's response to the findings identified in our audit is included in the Written Statement of Explanation or Rebuttal on page 36. We did not audit the School's response and, accordingly, do not express an opinion on it.

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

MC CRADY, HESS + RUTH

Maitland, Florida
September 29, 2012

2600 Lake Lucien Drive, Suite 405 ■ Maitland, FL 32751
Office 407-478-4020 ■ Fax 407-478-4021 ■ cpa@mhrcpas.com ■ www.mhrcpas.com

**Additional Information Required by
Rules of the Auditor General,
Chapter 10.850, *Audits of Charter Schools
and Similar Entities***



**Management Letter as Required by Rules of the Florida Auditor General, Chapter 10.850,
Florida Statutes, *Charter School Audits***

To the Board of Directors of South McKeel Academy, 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 South McKeel Academy, Inc. (the "School") as of and for the year ended 2012, and have issued our report thereon dated September 29, 2012.

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, Independent Auditor's report on Compliance with Requirements Applicable to each Major Federal Program and on Internal Controls over Compliance, and Schedule of Findings and Question Costs. Disclosure in those reports and schedules, which are dated September 29, 2012, 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 in prior year 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 contract 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 have an inconsequential effect on the 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 have finding 2012-01, which is detailed on our separate report of internal controls starting on page 30.

- Section 10.854(1)(e)6., Rules of the Auditor General, requires the name or official title of the school. The official title of the School is South McKeel 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 conditions met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures. 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 the same.

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

MC CRADY, HESS + RUTH

Maitland, Florida
September 29, 2012

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The Schools of McKeel Academy

303 E. Peachtree Street • Lakeland, Florida 33801

October 1, 2012

McCrady, Hess & Ruth
2600 Lake Lucien Drive, Suite 405
Maitland, FL 32751

This letter is in response to your audit of the financial statements of South McKeel Academy for the year ended June 30, 2012. Below please note Management's Response to your findings, as listed on pages 30-31.

Finding 2012-01 - Segregation of Duties: We recognize and acknowledge there were internal control weaknesses for the first nine months of the year. However, we have taken corrective action to ensure proper segregation of duties and strong internal controls. We are confident this will not be a comment in future audits based on the changes we have implemented.

Finding 2012-02 - Food Service: We recognize and acknowledge there was a lack of documentation supporting food service collections and deposits; however, corrective actions were taken during the last quarter of the fiscal year. We have procedures in place over food service receipts, and we are confident this will not be an issue going forward.

Finding 2012-03 - Board training: As of October 1, 2012, the training has been completed.

We have responded to your findings to the best of our ability, and we are confident that our corrective action will resolve these findings in future years.

Sincerely,

Julie Ramirez, CPA

Finance Director