

STARS EDUCATIONAL SERVICES, INC.

A Charter School and Component Unit of the
Leon County School Board

INDEPENDENT AUDITOR'S REPORT

for the fiscal year ended JUNE 30, 2008

King & Walker, CPAs, PL

Certified Public Accountants

THIS PAGE IS INTENTIONALLY BLANK.

STARS EDUCATIONAL SERVICES, INC.

TABLE OF CONTENTS

| | PAGE NO. |
|--|---------------------|
| FINANCIAL SECTION | |
| Independent Auditor's Report on Basic Financial Statements and Required Supplementary Information | 1 |
| Management's Discussion and Analysis – (Unaudited) | 3 |
| Basic Financial Statements | |
| <i>Government-Wide Financial Statements:</i> | |
| Statement of Net Assets | 8 |
| Statement of Activities | 9 |
| <i>Fund Financial Statements:</i> | |
| Balance Sheet – Governmental Funds | 10 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 12 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 13 |
| Notes to Financial Statements | 14 |
| Other Required Supplementary Information | |
| Budgetary Comparison Schedule – General Fund and Major Special Revenue Fund (Unaudited) | 21 |
| COMPLIANCE AND INTERNAL CONTROL | |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i> | 22 |
| Management Letter as required by Rules of the Florida Auditor General, Chapter 10.850, Florida Statutes, <i>Charter School Audits</i> . | 24 |
| Management's Response to Audit Findings | 26 |

KING & WALKER, CPAs, PL
Certified Public Accountants

David M. King, CPA
Robert I. Walker, CPA

840 W. Lutz Lake Fern Road
Lutz, FL 33548
office (813) 610-0659 fax (813) 949-9376

**Independent Auditor's Report on Basic Financial Statements and
Required Supplementary Information**

To the Board of Directors of the Stars Educational Services, Inc.,
a Charter School and Component Unit of the Leon County
School Board, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Stars Educational Services, Inc. ("School"), a charter school and component unit of the Leon County School Board, Florida, as of and for the fiscal year ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Stars Educational Services, Inc. as of June 30, 2008, and the respective changes in financial position thereof for the fiscal 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 a report dated August 14, 2008, on our consideration of the Stars Educational Services, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts and grants, and other guidelines included under the heading ***Independent Auditor's Report 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***. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Respectfully submitted,

King & Walker, CPAs

August 14, 2008
Lutz, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The Management's Discussion and Analysis (MD&A) section of the annual financial report of the Stars Educational Services, Inc. ("School") provides an overview of the School's activities for the fiscal year ended June 30, 2008.

Because the information contained in the MD&A is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the School's financial statements and notes to financial statements found on pages 8 through 20.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2008, the School's expenses exceeded revenues as shown on the School's statement of activities by \$91,095.
- Overall, revenues totaled \$1,006,585 for the fiscal year ended June 30, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- ✓ Government-wide financial statements
- ✓ Fund financial statements
- ✓ Notes to financial statements

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the School presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the School. The statement of activities presents information about the change in the School's net assets and the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the School's financial health is improving or deteriorating. To assess the overall financial position of the School, one needs to consider additional non-financial factors such as changes in the School student base funding level.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. 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. Fund financial statements provide more detailed information about the School's financial activities, focusing on its most significant funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide financial statements.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund financial statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

The governmental financial fund statements provide a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental fund to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the School's most significant funds. The School operates three funds; a General Fund and a Special Revenue Fund. The School has elected to show each fund as a major fund.

The School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the General Fund and Special Revenue Fund to demonstrate compliance with the budget.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the School's net assets as of June 30, 2008:

| | Net Assets, End of Year |
|---|--------------------------------|
| | <u>Governmental Activities</u> |
| | <u>6-30-08</u> |
| ASSETS | |
| Current and Other Assets | |
| Capital Assets, net | <u>44,062</u> |
| Total Assets | <u>44,062</u> |
| LIABILITIES | |
| Current Liabilities | 858 |
| Long-term Liabilities | <u>130,086</u> |
| Total Liabilities | <u>130,944</u> |
| NET ASSETS | |
| Invested in Capital Assets, net of Debt | (86,024) |
| Unrestricted | <u>(858)</u> |
| Total Net Assets | <u>(86,882)</u> |
| Total Liabilities and Net Assets | <u><u>\$ 44,062</u></u> |

The School reported net Capital Assets of \$44,062.

The key elements of the changes in the School's net assets for the fiscal year ended and June 30, 2008 are as follows:

| Operating Results for the Year | |
|---|--------------------|
| <u>Governmental Activities</u> | |
| <u>6-30-08</u> | |
| Revenues: | |
| Federal sources | \$ 211,821 |
| State and Local sources | 666,035 |
| Grants, Contributions and Other | 128,729 |
| Total Revenues | <u>1,006,585</u> |
| Expenses: | |
| Instruction | 427,567 |
| Pupil Personnel Services | 8,390 |
| Instructional Media | |
| Instr. & Curriculum Development | |
| Instructional Staff Training | 16,139 |
| Board of Education | 19,190 |
| School Administration | 280,856 |
| Fiscal Services | 34,425 |
| Food Services | 35,632 |
| Central Services | 767 |
| Pupil Transportation | 32,866 |
| Operation of Plant | 233,489 |
| Maintenance of Plant | 4,132 |
| Unallocated Depreciation | 3,389 |
| Debt Service - Interest | 838 |
| Total Expenses | <u>1,097,680</u> |
| Increase/(Decrease) in Net Assets | <u>\$ (91,095)</u> |

The largest revenue source for the School is the State of Florida (66 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data to determine the funds available for the School. A small increase in the Base Student Allocation, discretionary mileage, Equalization/Compression monies, and District Cost Differential percentages, increased Class Size Reduction monies resulted in a revenue increase.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

As the School completed the year, its governmental funds reported a combined deficit fund balance of (\$858).

BUDGETARY HIGHLIGHTS

The general fund budget for the fiscal year ended June 30, 2008, was developed based on the School's anticipated revenues and expenditures and the expected student population for the school year. Actual expenditures were approximately equal to what was originally anticipated.

CAPITAL ASSETS

The School's investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$44,062 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures, and equipment, leasehold improvements and assets under capital lease. Additional information regarding the School's capital assets can be found in note 2 to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Stars Educational Services, Inc.'s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Stars Educational Services, Inc., 1234 Blountstown Highway, Tallahassee, Florida 32304.

STARS EDUCATIONAL SERVICES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
LEON COUNTY SCHOOL BOARD, FLORIDA

STATEMENT OF NET ASSETS

June 30, 2008

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Current Assets: | |
| Accounts Receivable | \$ - |
| Due from Other Agencies | - |
| Total Current Assets | <u>0</u> |
| Capital Assets: | |
| Furniture, Fixtures, and Equipment, Net | <u>44,062</u> |
| TOTAL ASSETS | <u><u>\$ 44,062</u></u> |
| LIABILITIES | |
| Accounts Payable | \$ - |
| Temporary Overdraft | 858 |
| Loans Payable | |
| Due Within One Year | 16,439 |
| Due After One Year | <u>113,647</u> |
| Total Liabilities | <u>130,944</u> |
| NET ASSETS | |
| Invested in Capital Assets, Net of Related Debt | (86,024) |
| Restricted | - |
| Unrestricted | <u>(858)</u> |
| Total Net Assets | <u>(86,882)</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 44,062</u></u> |

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

STARS EDUCATIONAL SERVICES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
LEON COUNTY SCHOOL BOARD, FLORIDA

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

| | Expenses | Program Revenues | | | Net (Expenses) Revenue and Changes Net Assets | Total |
|---|---------------------|----------------------------|--|--|--|--------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| Governmental Activities: | | | | | | |
| Instruction | \$ 427,567 | \$ | \$ 117,402 | \$ | \$ (310,165) | \$ (310,165) |
| Pupil Personnel Services | 8,390 | | | | (8,390) | (8,390) |
| Instructional Staff Training | 16,139 | | | | (16,139) | (16,139) |
| Board of Education | 19,190 | | 10,250 | | (8,940) | (8,940) |
| School Administration | 280,856 | | 30,000 | | (250,856) | (250,856) |
| Fiscal Services | 34,425 | | | | (34,425) | (34,425) |
| Food Services | 35,632 | 6,243 | 13,179 | | (16,210) | (16,210) |
| Central Services | 767 | | | | (767) | (767) |
| Pupil Transportation | 32,866 | | | | (32,866) | (32,866) |
| Operation of Plant | 233,489 | | 40,990 | | (192,499) | (192,499) |
| Maintenance of Plant | 4,132 | | | | (4,132) | (4,132) |
| Interest on Debt | 838 | | | | (838) | (838) |
| Unallocated Depreciation | 3,389 | | | | (3,389) | (3,389) |
| Total Governmental Activities | <u>\$ 1,097,680</u> | <u>\$ 6,243</u> | <u>\$ 211,821</u> | <u>\$</u> | <u>(879,616)</u> | <u>(879,616)</u> |
| General Revenues: | | | | | | |
| State and Local sources | | | | | 663,241 | 663,241 |
| Grants and Contributions not restricted to specific program | | | | | 125,280 | 125,280 |
| Other | | | | | | |
| | | | | | <u>788,521</u> | <u>788,521</u> |
| Change in Net Assets | | | | | (91,095) | (91,095) |
| Net Assets - July 1, 2007 | | | | | 4,213 | 4,213 |
| Net Assets - June 30, 2008 | | | | | <u>\$ (86,882)</u> | <u>\$ (86,882)</u> |

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

STARS EDUCATIONAL SERVICES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
LEON COUNTY SCHOOL BOARD, FLORIDA

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Debt Service Fund</u> | <u>TOTAL</u> |
|--------------------------------------|-------------------------|-------------------------------------|----------------------------------|-------------------|
| ASSETS | | | | |
| Accounts Receivable | \$ - | \$ - | \$ - | \$ - |
| Due From Other Agencies | | | | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ASSETS | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ - |
| Temporary Overdraft | 858 | | | 858 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>858</u> | <u>-</u> | <u>-</u> | <u>858</u> |
| Fund Balances: | | | | |
| Restricted | - | - | - | - |
| Unrestricted | (858) | | | (858) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Fund Balances | <u>(858)</u> | <u>-</u> | <u>-</u> | <u>(858)</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

STARS EDUCATIONAL SERVICES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
LEON COUNTY SCHOOL BOARD, FLORIDA

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

June 30, 2008

| | |
|---|-----------------|
| Total Fund Balances - Governmental Funds | \$ (858) |
|---|-----------------|

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

| | |
|---|--------|
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. | 44,062 |
|---|--------|

| | |
|--|------------------|
| Long-term liabilities are not due and payable in the current period and therefore not reported as liabilities in the governmental funds until due. | <u>(130,086)</u> |
|--|------------------|

| | |
|---|----------------------------------|
| Total Net Assets - Governmental Activities | <u><u>\$ (86,882)</u></u> |
|---|----------------------------------|

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

STARS EDUCATIONAL SERVICES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
LEON COUNTY SCHOOL BOARD, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

| | General Fund | Special Revenue Fund | Debt Service Fund | Total Governmental Funds |
|---------------------------------------|-----------------|----------------------------|-------------------------|--------------------------------|
| Revenues | | | | |
| Intergovernmental: | | | | |
| Federal Through Local | \$ | \$ 211,821 | \$ | \$ 211,821 |
| State and Local | 663,241 | | | 663,241 |
| Contributions and Other | 131,523 | | | 131,523 |
| Total Revenues | <u>794,764</u> | <u>211,821</u> | | <u>1,006,585</u> |
| Expenditures | | | | |
| Current - Education: | | | | |
| Instruction | \$ 310,165 | \$ 117,402 | \$ | \$ 427,567 |
| Pupil Personnel Services | 8,390 | | | 8,390 |
| Instructional Media | | | | - |
| Instruction & Curriculum Development | | | | - |
| Instructional Staff Training | 16,139 | | | 16,139 |
| Board of Education | 8,940 | 10,250 | | 19,190 |
| School Administration | 250,856 | 30,000 | | 280,856 |
| Facilities Acquisition & Construction | | | | - |
| Fiscal Services | 34,425 | | | 34,425 |
| Food Services | 22,453 | 13,179 | | 35,632 |
| Central Services | 767 | | | 767 |
| Pupil Transportation | 32,866 | | | 32,866 |
| Operation of Plant | 192,499 | 40,990 | | 233,489 |
| Maintenance of Plant | 4,132 | | | 4,132 |
| Community Service | | | | |
| Fixed Capital Outlay: | | | | |
| Other Capital Outlay | 42,788 | | | 42,788 |
| Debt Service: | | | | |
| Principal | | | 7,352 | 7,352 |
| Interest | | | 838 | 838 |
| Total Expenditures | <u>924,420</u> | <u>211,821</u> | <u>8,190</u> | <u>1,144,431</u> |
| Excess (Deficiency) of Revenues | | | | |
| Over Expenditures | (129,656) | | (8,190) | (137,846) |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Loans | | | 137,438 | 137,438 |
| Operating Transfers In | 137,438 | | 8,190 | 145,628 |
| Operating Transfers Out | (8,190) | | (137,438) | (145,628) |
| Total Other Financing Sources (Uses) | <u>129,248</u> | <u>-</u> | <u>8,190</u> | <u>137,438</u> |
| Net Change in Fund Balance | (408) | | | (408) |
| Fund Balances, July 1, 2007 | (450) | - | - | (450) |
| Fund Balances, June 30, 2008 | <u>\$ (858)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (858)</u> |

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

STARS EDUCATIONAL SERVICES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
LEON COUNTY SCHOOL BOARD, FLORIDA

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

| | |
|---|-----------------|
| Net Change in Fund Balances - Governmental Funds | \$ (408) |
|---|-----------------|

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

| | |
|--|--------------------------------|
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period. | 39,399 |
| Long-term debt proceeds are reported as other financing sources in Governmental Funds and as long-term liabilities in the Statement of Net Assets. | (137,438) |
| Principal payments on long-term debt are reported as an expenditure in the Governmental Funds and a reduction to long-term debt in the Statement of Activities. | 7,352 |
| Change in Net Assets - Governmental Activities | <hr/> \$ (91,095) <hr/> |

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

STARS EDUCATIONAL SERVICES, INC.
A Charter School and Component Unit of the Leon County School Board
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Stars Educational Services, Inc. ("School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act and Section 1002.33, Florida Statutes. The governing body of the School is the not-for-profit corporation Board of Directors, which is comprised of five 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 Leon County School Board, Florida, ("District"). The current charter is effective and is subject to annual review and may be renewed by mutual agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter. During the term of the charter, the District may also terminate the charter if good cause is shown. In the event of termination of the charter, the District shall assume operation of the School. The School is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units which should be reported within the School's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, including the statement of net assets and the statement of activities, present information about the School as a whole.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

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

STARS EDUCATIONAL SERVICES, INC.
A Charter School and Component Unit of the Leon County School Board
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School.

Fund Financial Statements - Fund financial statements report detailed information about the School in the governmental funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The School's major governmental fund is as follows:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue Fund – to account for certain Federal grant program resources.
- Debt Service Fund – to account for debt proceeds of the School.

➤ **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures, or expenses, 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 prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The School considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized 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. Allocations of cost, such as depreciation, are not recognized in governmental funds.

STARS EDUCATIONAL SERVICES, INC.
A Charter School and Component Unit of the Leon County School Board
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

➤ **Budgets and Budgetary 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 and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g., instruction, pupil personnel services and school administration). Budgets may be amended by resolution at any Board meeting prior to the date for the annual report.

➤ **Deposits and Investments**

Cash deposits consist of demand deposits and a certificate of deposit with financial institutions. Deposits on hand at financial institutions are insured by the Federal Deposit Insurance Company up to \$100,000.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general School purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the School as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Furniture, Fixtures and Equipment | 3 - 7 years |

➤ **Revenue Sources**

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent students and related data to the District.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (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 designated full-time equivalent student survey periods. The Department may also adjust subsequent fiscal period allocations based upon an audit of the School's compliance in determining and reporting FTE and related data. Normally, such

STARS EDUCATIONAL SERVICES, INC.
A Charter School and Component Unit of the Leon County School Board
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The basic amount of funding through the FEFP under Section 1011.62 is the product of the (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplied by (3) the base student allocation established by the 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.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Florida Auditor General pursuant to Section 1010.305, Florida Statutes, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain the following documentation for three years or until the completion of an FTE audit:

- Attendance and membership documentation (Rule 6A-1.044, FAC).
- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC).
- Documentation for instructors teaching out-of-field (Rule 6A-1.0503, FAC).
- Procedural safeguards for weighted programs (Rule 6A-6.03411, FAC).
- Evaluation and planning documents for weighted programs (Section 1010.305, Florida Statutes, and Rule 6A-6.03411, FAC)

The School receives federal or state 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 or state awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

The School receives state funds through the District under charter school capital outlay funding pursuant to Section 1013.62, Florida Statutes. Funds are based upon a capital outlay plan submitted to the District and are to be used for lease, rent or construction of school facilities. The School also receives funding through donations and fundraising efforts, school lunch sales and local property tax collections.

The School follows the policy of applying restricted resources prior to applying unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

STARS EDUCATIONAL SERVICES, INC.
A Charter School and Component Unit of the Leon County School Board
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

➤ **Income Taxes**

The School is exempt from Federal tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

➤ **Use of Estimates**

In preparing the financial statements in conformity with generally accepted accounting principles 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 statement of net assets and affect revenues and expenditures for the period presented. Actual results could differ from those estimates.

2. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

| | Balance 7/1/2007 | Additions | Deletions | Balance 6/30/2008 |
|---|---------------------|------------------|-------------|----------------------|
| <u>Governmental Activities:</u> | | | | |
| Furniture, Fixtures and Equipment | \$ 4,663 | \$ 42,788 | \$ - | \$ 47,451 |
| Total Capital Assets Being Depreciated | 4,663 | 42,788 | - | 47,451 |
| Less Accumulated Depreciation for: | | | | |
| Furniture, Fixtures and Equipment | - | (3,389) | - | (3,389) |
| Total Accumulated Depreciation | - | (3,389) | - | (3,389) |
| Governmental Activities Capital Assets, net | <u>\$ 4,663</u> | <u>\$ 39,399</u> | <u>\$ -</u> | <u>\$ 44,062</u> |

Unallocated depreciation amounted to \$3,389 for the fiscal year ended June 30, 2008.

3. LOAN FROM RELATED PARTY

The School's Directors loaned the School \$117,438 during the fiscal year to help fund the operations of the School. The loan balance outstanding at June 30, 2008 was \$111,475 with \$6,598 due within one year. Interest costs, if any will be nominal.

STARS EDUCATIONAL SERVICES, INC.
A Charter School and Component Unit of the Leon County School Board
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

4. LOANS PAYABLE

Loans Payable obligations are as follows:

| <u>Capital City Bank</u> | <u>Balance at 6-30-08</u> |
|---|-------------------------------|
| \$20,000, Borrowed 04-27-08, to fund operations. Interest Rate of 8.00 Percent. Payments are to be made over 23 months. | <u>\$ 18,611</u> |

Amounts payable for the Loan are as follows:

| Fiscal Year Ending June 30 | Total | Principal | Interest |
|----------------------------------|------------------|------------------|-----------------|
| 2009 | \$ 10,974 | \$ 9,841 | \$ 1,133 |
| 2010 | 9,087 | 8,770 | 317 |
| Total | <u>\$ 20,061</u> | <u>\$ 18,611</u> | <u>\$ 1,450</u> |

5. FUNDING AND CREDIT CONCENTRATIONS

The School receives substantially all of its support and revenue from federal, state and local funding sources, passed through the District, in the form of performance and budget based contracts. Continuing operation of the School is greatly dependent upon the continued support of these governmental agencies.

6. DEFICIT FUND BALANCE

The School reported a deficit fund balance in its General Fund of (\$858) at June 30, 2008. The School's higher than expected building renovation costs was the primary cause. The School has made the necessary cost adjustments to its 2008-09 budget in order to alleviate the deficit by the end of the 2008-09 fiscal year.

STARS EDUCATIONAL SERVICES, INC.
A Charter School and Component Unit of the Leon County School Board
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

7. SCHEDULE OF FEDERAL, STATE & LOCAL REVENUE SOURCES

The following is a schedule of the School's State and local revenue for the 2007-08 fiscal year:

| <u>Source</u> | <u>Amount</u> |
|---|-------------------|
| <u><i>FEDERAL:</i></u> | |
| Charter School Grant - Leon County District Schools | \$ 166,415 |
| Other Federal Grants | 45,406 |
| Total Federal Sources | <u>\$ 211,821</u> |
| <u><i>STATE:</i></u> | |
| Florida Education Finance Program | \$ 432,520 |
| Categorical Educational Programs: | |
| ESE Gauranteed Allocation | 35,689 |
| Class Size Reduction | 99,915 |
| Supplementary Academic Instruction | 33,305 |
| Instructional Materials | 10,429 |
| Lottery Allocation | 3,939 |
| Safe School | 3,479 |
| Florida Teachers' Lead Program | 2,794 |
| Total State Revenue | <u>\$ 622,070</u> |
| <u><i>LOCAL:</i></u> | |
| Discretionary Millage | \$ 11,558 |
| Discretionary Local Effort | 32,407 |
| Other Local | 128,729 |
| Total Local Revenue | <u>172,694</u> |
| Total State and Local Revenue | <u>\$ 794,764</u> |

As provided in the charter school contract, the District has charged the School an administrative fee equal to 5% of total funding or \$33,162.

Accounting policies relating to certain State revenue sources are described in Note 1.

8. COMMITMENTS AND CONTINGENT LIABILITIES

The School participates in state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivables at June 30, 2008, may be impaired. In the opinion of the School, there are no significant 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.

STARS EDUCATION SERVICES, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF LEON COUNTY, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND & SPECIAL REVENUE FUND (Unaudited)
For the Fiscal Year Ended June 30, 2008

| | General Fund | | | | Special Revenue Fund | | | |
|--|---------------------|-----------------|-----------------|---|----------------------|-----------------|----------------|---|
| | Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) | Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| Revenues: | | | | | | | | |
| Intergovernmental: | | | | | | | | |
| Federal through Local | \$ | \$ | \$ | \$ - | \$ 211,821 | \$ 211,821 | \$ 211,821 | \$ - |
| State and Local | 666,035 | 663,241 | 663,241 | - | | | | - |
| Contributions and Other | 126,814 | 131,523 | 131,523 | - | | | | - |
| Total Revenues | 792,849 | 794,764 | 794,764 | - | 211,821 | 211,821 | 211,821 | - |
| Expenditures: | | | | | | | | |
| Current - Education: | | | | | | | | |
| Instruction | 320,000 | 310,165 | 310,165 | - | 117,402 | 117,402 | 117,402 | - |
| Pupil Personnel Services | 8,000 | 8,390 | 8,390 | - | | | | - |
| Instructional Media | | | - | - | | | | - |
| Instr & Curriculum Devel. | | | - | - | | | | - |
| Instructional Staff Training | 17,500 | 16,139 | 16,139 | - | | | | - |
| Board of Education | 9,000 | 8,940 | 8,940 | - | 10,250 | 10,250 | 10,250 | - |
| School Administration | 253,000 | 250,856 | 250,856 | - | 30,000 | 30,000 | 30,000 | - |
| Facilities Acq. & Constr. | | | - | - | | | | - |
| Fiscal Services | 30,000 | 34,425 | 34,425 | - | | | | - |
| Food Services | 25,500 | 22,453 | 22,453 | - | 13,179 | 13,179 | 13,179 | - |
| Central Services | 1,000 | 767 | 767 | - | | | | - |
| Pupil Transportation | 40,000 | 32,866 | 32,866 | - | | | | - |
| Operation of Plant | 170,000 | 192,499 | 192,499 | - | 40,990 | 40,990 | 40,990 | - |
| Maintenance of Plant | 4,000 | 4,132 | 4,132 | - | | | | - |
| Community Service | | | - | - | | | | - |
| Fixed Capital Outlay: | | | | | | | | |
| Other Capital Outlay | 44,505 | 42,788 | 42,788 | - | | | | - |
| Debt Service: | | | | | | | | |
| Principal | | | - | - | | | | - |
| Interest | | | - | - | | | | - |
| Total Expenditures | 922,505 | 924,420 | 924,420 | | 211,821 | 211,821 | 211,821 | |
| Excess (Deficiency) of Revenues Over Expenditures | (129,656) | (129,656) | (129,656) | | | | | |
| Other Financing Sources (Uses): | | | | | | | | |
| Proceeds from Line of Credit | | | - | - | | | | - |
| Operating Transfers In | | 137,438 | 137,438 | - | | | | - |
| Operating Transfers Out | | (8,190) | (8,190) | - | | | | - |
| Total Other Fin. Sources (Uses) | | 129,248 | 129,248 | | | | | |
| Net Change in Fund Balance | (129,656) | (408) | (408) | - | | | | - |
| Fund Balances, July 1, 2007 | - | (450) | (450) | - | - | | | - |
| Fund Balances, June 30, 2008 | \$ (129,656) | \$ (858) | \$ (858) | \$ - | \$ - | \$ - | \$ - | \$ - |

KING & WALKER, CPAs, PL

Certified Public Accountants

David M. King, CPA
Robert I. Walker, CPA

840 W. Lutz Lake Fern Road
Lutz, FL 33548
office (813) 610-0659 fax (813) 949-9376

Independent Auditor's Report 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 the Stars Educational Services, Inc.,
a Charter School and Component Unit of the Leon County School Board, Florida

We have audited the basic financial statements of the Stars Educational Services, Inc. ("School"), a charter school and component unit of the Leon County School Board, Florida, as of and for the fiscal year ended June 30, 2008, and have issued our report thereon included under the heading *Independent Auditor's Report on Basic Financial Statements and Required Supplementary Information*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the School's financial statements for the fiscal year ended June 30, 2008, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

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

This report is intended for the information and use of the School and its management, the Leon County School Board, Florida, the Florida Department of Education, the Florida Auditor General, and other granting agencies and is not intended to be and should not be used by anyone other than these specific parties.

Respectfully submitted,

A handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive, flowing style.

August 14, 2008
Lutz, Florida

KING & WALKER, CPAs, PL
Certified Public Accountants

David M. King, CPA
Robert I. Walker, CPA

840 W. Lutz Lake Fern Road
Lutz, FL 33548
office (813) 610-0659 fax (813) 949-9376

**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 the Stars Educational Services, Inc.,
a Charter School and Component Unit of the District
School Board of Leon County, Florida

We have audited the basic financial statements of the Stars Educational Services, Inc. ("School"), a charter school and component unit of the District School Board of Leon County, Florida, as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated August 14, 2008.

We have issued our independent auditor's report on compliance and on internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards* dated August 14, 2008. Disclosures in that report, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, our audit was conducted in accordance with provisions of Chapter 10.850, Rules of the Auditor General, which govern the conduct of charter school audits performed in the State of Florida and require certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.854(1)(e)1.), require that we comment as to whether corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. This is the School's first audit and therefore, there were no prior audit findings.

The Rules of the Auditor General (Section 10.854(1)(e)2.), require that we make a statement as to whether the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes regarding financial emergency. In connection with our audit, we determined that the School met the condition described in Section 218.503(1)(e), Florida Statutes. The School reported deficit unreserved fund balance of \$858 as shown on its Balance Sheet – Governmental Funds, as disclosed in Note 6, page 19 of its audited financial statements. We applied financial condition assessment procedures pursuant to Rules of the Auditor General (Section 10.855(10)). The financial emergency condition met was not a result of deteriorating financial conditions. The School did not meet any other criteria of Section 218.503(1), Florida Statutes in determination of financial emergency.

The Rules of the Auditor General (Section 10.854(1)(e)3.), require that we make recommendations, present financial management, accounting procedures, and internal controls. No recommendations were noted in our audit.

The Rules of the Auditor General (Section 10.854(1)(e)4,5.), require disclosure in the management letter of matters that are not clearly inconsequential considering both quantitative and qualitative factors which include the following:

- Violations of laws, rules, regulations, contracts, and grant agreements or abuse that have occurred, or are likely to have occurred.
- Improper expenditures discovered within the scope of the financial audit which may or may not materially affect the financial statements.
- Control deficiencies that are not significant deficiencies, including, but not limited to: (1) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (2) failures to properly record financial transactions, and (3) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

Our audit disclosed no matters required to be disclosed by this Rule.

The Rules of the Auditor General (Section 10.854(1)(e)6.), require we disclose the name or official title of the school or center. The school's official name is Stars Educational Services, Inc.

This letter is intended for the information and use of the School and its management, the District School Board of Leon County, Florida, the Florida Department of Education, the Florida Auditor General, and other granting agencies and is not intended to be and should not be used by anyone other than these specific parties.

Respectfully submitted,

King & Walker, CPAs

August 14, 2008
Lutz, Florida

STARS EDUCATIONAL SERVICES, INC.

Management's Response to Audit Findings

Year Ended June 30, 2008

The following is the School's response to the item in the Management Letter dated August 14, 2008, as required by Rule 10.857, Rules of the Auditor General:

No response required.