

**ORLANDO SCIENCE MIDDLE/HIGH
CHARTER SCHOOLS**

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

INDEPENDENT AUDITOR'S REPORT

for the fiscal year ended JUNE 30, 2011

King & Walker, CPAs, PL

Certified Public Accountants

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ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS

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

To the Board of Directors of the Orlando Science Middle/High Charter Schools,
a Charter School and Component Unit of the
District School Board of Orange County, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Orlando Science Middle/High Charter Schools ("School"), a charter school and component unit of the District School Board of Orange County, Florida, as of and for the fiscal year ended June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Orlando Science Middle/High Charter Schools as of June 30, 2011, 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 September 25, 2011, on our consideration of the Orlando Science Middle/High Charter School'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

September 25, 2011
Lutz, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The Management's Discussion and Analysis (MD&A) section of the annual financial report of the Orlando Science Middle/High Charter Schools ("School") provides an overview of the School's activities for the fiscal year ended June 30, 2011.

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 21.

FINANCIAL HIGHLIGHTS

- ✓ For the fiscal year ended June 30, 2011, the School's General Fund balance as shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds was \$296,532.
- ✓ The School reported \$85,074 of total Capital Assets (net of accumulated depreciation) as shown on the Statement of Net Assets.
- ✓ The School's total Net Assets showed a balance of \$381,606 at June 30, 2011.

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 funds 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, Special Revenue Fund, and a Capital Projects 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 Major 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, 2010 and June 30, 2011:

	Net Assets, End of Year		
	Governmental Activities		
	6-30-10	6-30-11	Increase (Decrease)
ASSETS			
Current and Other Assets	\$ 72,261	\$ 305,743	\$ 233,482
Capital Assets, net	57,873	85,074	27,201
Total Assets	<u>130,134</u>	<u>390,817</u>	<u>260,683</u>
LIABILITIES			
Current Liabilities	970	9,211	8,241
Long-term Liabilities	123,873	-	(123,873)
Total Liabilities	<u>124,843</u>	<u>9,211</u>	<u>(115,632)</u>
NET ASSETS			
Invested in Capital Assets, Net of Debt	-	85,074	85,074
Unrestricted	5,291	296,532	291,241
Total Net Assets	<u>5,291</u>	<u>381,606</u>	<u>376,315</u>
Total Liabilities and Net Assets	<u>\$ 130,134</u>	<u>\$ 390,817</u>	<u>\$ 260,683</u>

The School's Total Net Assets increased significantly by \$376,315 to end the 2010-2011 fiscal year with a balance of \$381,606. This increase was primarily due to the school paying off Long-term debt balances and the increase in cash due to the increase in revenue as the school's enrollment continues to grow.

The key elements of the changes in the School's net assets for the fiscal years ended June 30, 2010, and June 30, 2011, are as follows:

	Governmental Activities		
	6-30-10	6-30-11	Increase (Decrease)
Revenues:			
Federal Through Local	\$ 134,893	\$ 168,921	\$ 34,028
State and Local sources	1,435,499	2,651,841	1,216,342
Contributions and other	326,899	97,607	(229,292)
Total Revenues	1,897,291	2,918,369	1,021,078
Expenses:			
Instruction	773,587	1,312,180	538,593
Instructional Support Services	-	24,282	24,282
Instructional Media	-	444	444
Pupil Personnel Services	11,125	-	(11,125)
Instructional & Curriculum Development	1,497	-	(1,497)
Instructional Staff Training	3,327	15,607	12,280
General Support Services	-	45,573	45,573
Board of Education	34,402	21,163	(13,239)
School Administration	191,906	287,886	95,980
Facilities Acquisition	352,854	473,106	120,252
Fiscal Services	83,589	115,155	31,566
Food Services	9,083	17,069	7,986
Operation of Plant	89,604	114,183	24,579
Maintenance of Plant	10,914	18,360	7,446
Community Service	37,185	77,257	40,072
Interest on Debt	3,403	2,293	(1,110)
Unallocated Depreciation	11,622	17,496	5,874
Total Expenses	1,614,098	2,542,054	927,956
Increase/(Decrease) in Net Assets	\$ 283,193	\$ 376,315	\$ 93,122

The largest revenue source for the School is the State of Florida (84 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. Revenues increased approximately 54% or \$1,021,078 over prior year revenues. This was due mostly to the school's increase in student enrollment

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

As the School completed the year, its governmental funds reported a fund balance of \$296,532.

BUDGETARY HIGHLIGHTS

The general fund budget for the fiscal year ended June 30, 2011, was developed based on the School's anticipated revenues and expenditures and the expected student population for the school year. Over the course of the year, the school revised its general fund budget several times. For the fiscal year ended June 30, 2011, the actual expenditures were equal to the final budget. Refer to the Budgetary Comparison Schedule on page 22 for additional information.

CAPITAL ASSETS

The School's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$85,074 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures, and equipment and computer equipment. 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 Orlando Science Middle/High Charter School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Orlando Science Middle/High Charter Schools, 2427 Lynx Lane, Orlando, FL 32804.

**ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ORANGE COUNTY, FLORIDA**

STATEMENT OF NET ASSETS

June 30, 2011

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 273,795
Accounts Receivable	948
Deposits	31,000
Total Current Assets	305,743
Capital Assets:	
Computer Equipment, Net	41,051
Furniture, Fixtures, and Equipment, Net	44,023
Total Capital Assets, Net	85,074
TOTAL ASSETS	\$ 390,817
LIABILITIES	
Accounts Payable	\$ 9,211
Total Liabilities	9,211
NET ASSETS	
Invested in Capital Assets	85,074
Unrestricted	296,532
Total Net Assets	381,606
TOTAL LIABILITIES AND NET ASSETS	\$ 390,817

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

**ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ORANGE COUNTY, FLORIDA**

**STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011**

	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	\$ 1,312,180	\$	\$ 168,921	\$	\$ (1,143,259)	\$ (1,143,259)
Instructional Support Services	24,282				(24,282)	(24,282)
Instructional Media	444				(444)	(444)
Instructional Staff Training	15,607				(15,607)	(15,607)
General Support Services	45,573				(45,573)	(45,573)
Board of Education	21,163				(21,163)	(21,163)
School Administration	287,886				(287,886)	(287,886)
Facilities Acquisition	473,106			194,557	(278,549)	(278,549)
Fiscal Services	115,155				(115,155)	(115,155)
Food Services	17,069	13,230			(3,839)	(3,839)
Operation of Plant	114,183				(114,183)	(114,183)
Maintenance of Plant	18,360				(18,360)	(18,360)
Community Service	77,257				(77,257)	(77,257)
Interest on Debt	2,293				(2,293)	(2,293)
Unallocated Depreciation	17,496				(17,496)	(17,496)
Total Governmental Activities	\$ 2,542,054	\$ 13,230	\$ 168,921	\$ 194,557	(2,165,346)	(2,165,346)
 General Revenues:						
State and Local sources					2,457,284	2,457,284
Contributions and Other					84,377	84,377
Total General Revenues					<u>2,541,661</u>	<u>2,541,661</u>
Change in Net Assets					376,315	376,315
Net Assets - July 1, 2010					5,291	5,291
Net Assets - June 30, 2011					<u>\$ 381,606</u>	<u>\$ 381,606</u>

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

**ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ORANGE COUNTY, FLORIDA**

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	TOTAL
ASSETS				
Cash and Cash Equivalents	\$ 273,795	\$ -	\$ -	\$ 273,795
Accounts Receivable	948	-	-	948
Deposits	31,000	-	-	31,000
TOTAL ASSETS	\$ 305,743	\$ -	\$ -	\$ 305,743
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 9,211	\$ -	\$ -	\$ 9,211
Total Liabilities	9,211	-	-	9,211
 Fund Balances:				
Nonspendable	31,000	-	-	31,000
Spendable:				
Unassigned	265,532	-	-	265,532
Total Fund Balances	296,532	-	-	296,532
TOTAL LIABILITIES AND FUND BALANCES	\$ 305,743	\$ -	\$ -	\$ 305,743

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

**ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ORANGE COUNTY, FLORIDA**

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

June 30, 2011

Total Fund Balances - Governmental Funds	\$ 296,532
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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.	85,074
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Total Net Assets - Governmental Activities	<u>\$ 381,606</u>
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The accompanying notes to financial statements are an integral part of this statement.

**ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ORANGE COUNTY, FLORIDA**

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

For the Fiscal Year Ended June 30, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
Revenues				
Intergovernmental:				
Federal Through Local	\$ -	\$ 168,921	\$ -	\$ 168,921
State and Local	2,457,284	-	194,557	2,651,841
Contributions and Other	97,607	-	-	97,607
Total Revenues	2,554,891	168,921	194,557	2,918,369
Expenditures				
Current - Education:				
Instruction	\$ 1,143,259	\$ 168,921	\$ -	\$ 1,312,180
Instructional Support Services	24,282			24,282
Instructional Media	444			444
Instructional Staff Training	15,607			15,607
General Support Services	45,573			45,573
Board of Education	21,163			21,163
School Administration	287,886			287,886
Facilities Acquisition	278,549		194,557	473,106
Fiscal Services	115,155			115,155
Food Services	17,069			17,069
Operation of Plant	114,183			114,183
Maintenance of Plant	18,360			18,360
Community Service	77,257			77,257
Fixed Capital Outlay:				
Other Capital Outlay	44,697			44,697
Debt Service:				
Principal	123,873			123,873
Interest	2,293			2,293
Total Expenditures	2,329,650	168,921	194,557	2,693,128
Net Change in Fund Balances	225,241	-	-	225,241
Fund Balances, July 1, 2010	71,291	-	-	71,291
Fund Balances, June 30, 2011	\$ 296,532	\$ -	\$ -	\$ 296,532

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

**ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ORANGE COUNTY, 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, 2011***

Net Change in Fund Balances - Governmental Funds	\$ 225,241
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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 depreciation expense in excess of capital outlays in the current period.	27,201
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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.	123,873
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Change in Net Assets - Governmental Activities	<u><u>\$ 376,315</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A Charter School and Component Unit of the District School Board of Orange County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Discovery Educational Services, Inc. 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 Discovery Education Services, Inc. entered into an agreement with the District School Board of Orange County, Florida to operate a charter school under the name Orlando Science Middle/High Charter School. The reporting entity consists of the Orlando Science Middle/High Charter School ("School"). 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 Orange County School Board, Florida, ("District"). The current charter is effective until June 30, 2013, 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.

ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
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June 30, 2011

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 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, reconciliation is presented with each of the governmental fund financial statements.

The School's major governmental funds are 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 Federal grant program resources.
- Capital Projects Fund: to account for all resources for the acquisition of capital and related items purchased by the School with capital outlay funds.

➤ **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

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June 30, 2011

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.

➤ **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.

➤ **Cash and Cash Equivalents**

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.

➤ **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
Computer Equipment	5 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

ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
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June 30, 2011

reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent (FTE) 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 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. For the fiscal year ended June 30, 2011, the School reported 414.43 unweighted and 416.42 weighted FTE.

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 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.

ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A Charter School and Component Unit of the District School Board of Orange County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

➤ **Fund Balance**

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) effective for reporting periods beginning after June 15, 2010. The statement establishes fund balance classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosure of non-spendable and spendable resources. The School has deposits of \$31,000 classified as non-spendable. Spendable resources are to be shown as Restricted, Committed, Assigned, and Unassigned as considered appropriate in the School's circumstances. The School has reported its remaining fund balance of \$265,532 as Spendable-Unassigned on its Balance Sheet – Governmental Funds.

➤ **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.

ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A Charter School and Component Unit of the District School Board of Orange County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

2. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Computer Equipment	\$ 37,247	\$ 23,934	\$ -	\$ 61,181
Furniture, Fixtures and Equipment	37,060	20,763	-	57,823
Total Capital Assets Being Depreciated	<u>74,307</u>	<u>44,697</u>	<u>-</u>	<u>119,004</u>
Less Accumulated Depreciation for:				
Computer Equipment	(10,287)	(9,843)	-	(20,130)
Furniture, Fixtures and Equipment	(6,147)	(7,653)	-	(13,800)
Total Accumulated Depreciation	<u>(16,434)</u>	<u>(17,496)</u>	<u>-</u>	<u>(33,930)</u>
Governmental Activities Capital Assets, net	<u>\$ 57,873</u>	<u>\$ 27,201</u>	<u>\$ -</u>	<u>\$ 85,074</u>

Unallocated depreciation amounted to \$17,496 for the fiscal year ended June 30, 2011.

3. OPERATING LEASES

The School entered into a 58 month lease agreement starting September 1, 2008 for its educational facility. The agreement calls for initial monthly rent payments of \$20,948 commencing on September 1, 2008. The annual Base Rent will increase by 3% over the Base Rent for the previous calendar year on July 1st in each of the subsequent years of the lease including all renewals and extensions. Total rent expense charged to operations for the year ended June 30, 2011 totaled \$266,685.

The total future minimum payments for the years ended June 30, are as follows:

Fiscal Year Ending June 30:	Facilities
2012	274,685
2013	282,926
Total Minimum Lease Payments	<u>\$ 557,611</u>

4. LOANS FROM RELATED PARTY

The School's Directors loaned the school money during prior fiscal years. The school began the year with a total related party long-term debt balance of \$123,873 and paid back the entire balance during the fiscal year. Refer to Note 5 - Changes in Long-Term Liabilities for detail of these changes.

ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A Charter School and Component Unit of the District School Board of Orange County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

5. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	Balance 7/1/2010	Additions	Deductions	Balance 6/30/2011	Due in One Year
GOVERNMENTAL ACTIVITIES:					
Loans Payable - Related Parties	\$ 123,873	\$ -	\$ (123,873)	\$ -	\$ -
Total Governmental Activities	<u>\$ 123,873</u>	<u>\$ -</u>	<u>\$ (123,873)</u>	<u>\$ -</u>	<u>\$ -</u>

6. RISK MANAGEMENT PROGRAMS

Workers' compensation and general liability coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage.

7. 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.

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, 2011, 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.

ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A Charter School and Component Unit of the District School Board of Orange County, Florida
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

9. SCHEDULE OF FEDERAL, STATE & LOCAL REVENUE SOURCES

The following is a schedule of the School's Federal, State and local revenue for the 2010-11 fiscal year:

Source	Amount
<i><u>FEDERAL:</u></i>	
Second Year Implementation Grant - Through the Dist	\$ 40,399
Federal Stabilization	128,522
Total Federal Sources	168,921
<i><u>STATE:</u></i>	
Florida Education Finance Program	1,522,436
Categorical Educational Programs:	
Class Size Reduction Allocation	379,976
Supplementary Academic Instruction	89,995
ESE Guaranteed Allocation	101,327
Instructional Materials	33,650
Safe Schools	10,145
Discretionary Lottery	1,482
Florida Teachers' Lead Program	4,738
Education Jobs Fund	80,963
School Recognition	18,327
Capital Outlay	194,557
Merit Award Program	11,969
Total State Revenue	2,449,565
<i><u>LOCAL:</u></i>	
Discretionary Local Effort	202,276
Total Local Revenue	202,276
Total State and Local Revenue	\$2,651,841

As provided in the charter school contract, the District has charged the School an administrative fee totaling \$74,494.

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

**ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ORANGE COUNTY, FLORIDA**

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND & MAJOR SPECIAL REVENUE FUND (Unaudited)
For the Fiscal Year Ended June 30, 2011**

	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	\$ -	\$ -	\$ -	\$ -	\$ 175,000	\$ 168,921	\$ 168,921	\$ -
State and Local	2,500,000	2,457,284	2,457,284	-	-	-	-	-
Contributions and Other	100,000	97,607	97,607	-	-	-	-	-
Total Revenues	2,600,000	2,554,891	2,554,891	-	175,000	168,921	168,921	-
Expenditures:								
Current - Education:								
Instruction	1,200,000	1,143,259	1,143,259	-	175,000	168,921	168,921	-
Instructional Support Services	25,000	24,282	24,282	-	-	-	-	-
Instructional Media	500	444	444	-	-	-	-	-
Instructional Staff Training	15,000	15,607	15,607	-	-	-	-	-
General Support Services	50,000	45,573	45,573	-	-	-	-	-
Board of Education	20,000	21,163	21,163	-	-	-	-	-
School Administration	300,000	287,886	287,886	-	-	-	-	-
Facilities Acquisition	275,000	278,549	278,549	-	-	-	-	-
Fiscal Services	120,000	115,155	115,155	-	-	-	-	-
Food Services	20,000	17,069	17,069	-	-	-	-	-
Operation of Plant	115,000	114,183	114,183	-	-	-	-	-
Maintenance of Plant	20,000	18,360	18,360	-	-	-	-	-
Community Service	75,000	77,257	77,257	-	-	-	-	-
Fixed Capital Outlay:								
Other Capital Outlay	5,000	44,697	44,697	-	-	-	-	-
Debt Service:								
Principal	120,000	123,873	123,873	-	-	-	-	-
Interest	2,000	2,293	2,293	-	-	-	-	-
Total Expenditures	2,362,500	2,329,650	2,329,650	-	175,000	168,921	168,921	-
Net Change in Fund Balances	237,500	225,241	225,241	-	-	-	-	-
Fund Balances, July 1, 2010	71,291	71,291	71,291	-	-	-	-	-
Fund Balances, June 30, 2011	\$ 308,791	\$ 296,532	\$ 296,532	\$ -	\$ -	\$ -	\$ -	\$ -

See Independent Auditor's Report.

KING & WALKER, CPAs, PL

Certified Public Accountants

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

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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 Orlando Science Middle/High Charter Schools,
a Charter School and Component Unit of the
District School Board of Orange County, Florida

We have audited the basic financial statements of the Orlando Science Middle/High Charter Schools ("School"), a charter school and component unit of the District School Board of Orange County, Florida, as of and for the fiscal year ended June 30, 2011, 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, 2011, 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 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 misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 Orange 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,

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

September 25, 2011
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 Orlando Science Middle/High Charter Schools,
a Charter School and Component Unit of the
District School Board of Orange County, Florida

We have audited the basic financial statements of the Orlando Science Middle/High Charter Schools ("School"), a charter school and component unit of the District School Board of Orange County, Florida, as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated September 25, 2011.

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 September 25, 2011. 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. 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. We applied financial condition assessment procedures pursuant to Rules of the Auditor General (Section 10.855(10)). The School has not met any of the conditions of the referenced statute.

Pursuant to Sections 10.854(1)(3)7.a. and 10.855(10), 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 by same.

The Rules of the Auditor General (Section 10.854(1)(e)3.), 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.

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 Orlando Science Middle/High Charter Schools.

This letter is intended for the information and use of the School and its management, the District School Board of Orange 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

September 25, 2011
Lutz, Florida

ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS
A Charter School and Component Unit of the District School Board of Orange County, Florida

MANAGEMENT'S RESPONSE TO AUDIT FINDINGS

Year Ended June 30, 2011

The following is the School's response to the item in the Management Letter dated September 25, 2011, as required by Rule 10.857, Rules of the Auditor General:

No response required.