

**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, 2012

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, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2012, 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 7, 2012, 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 7, 2012
Tampa, Florida

ORLANDO SCIENCE MIDDLE/HIGH CHARTER SCHOOLS

A Charter School and Component Unit of the District School Board of Orange County, 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, 2012.

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, 2012, the School's General Fund balance as shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds was \$490,554.
- ✓ The School reported \$165,929 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 \$656,483 at June 30, 2012.

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 two funds; a General 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 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, 2011 and June 30, 2012:

	Net Assets, End of Year		
	Governmental Activities		
	6-30-11	6-30-12	Increase (Decrease)
ASSETS			
Current and Other Assets	\$ 305,743	\$ 499,630	\$ 193,887
Capital Assets, net	85,074	165,929	80,855
Total Assets	<u>390,817</u>	<u>665,559</u>	<u>274,742</u>
LIABILITIES			
Current Liabilities	9,211	9,076	(135)
Total Liabilities	<u>9,211</u>	<u>9,076</u>	<u>(135)</u>
NET ASSETS			
Invested in Capital Assets, Net of Debt	85,074	165,929	80,855
Unrestricted	296,532	490,554	194,022
Total Net Assets	<u>381,606</u>	<u>656,483</u>	<u>274,877</u>
Total Liabilities and Net Assets	<u>\$ 390,817</u>	<u>\$ 665,559</u>	<u>\$ 274,742</u>

The School's Total Net Assets increased significantly by \$274,877 to end the 2011-2012 fiscal year with a balance of \$656,483. This increase was primarily due to the School's increase 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, 2011, and June 30, 2012, are as follows:

	Governmental Activities		
	6-30-11	6-30-12	Increase (Decrease)
Revenues:			
Federal Through Local	\$ 168,921	\$ 7,959	\$ (160,962)
State and Local Sources	2,651,841	3,106,645	454,804
Contributions and other	97,607	98,811	1,204
Total Revenues	2,918,369	3,213,415	295,046
Expenses:			
Instruction	1,312,180	1,572,256	260,076
Instructional Support Services	24,282	-	(24,282)
Instructional Media	444	494	50
Instructional & Curriculum Development	-	1,075	1,075
Instructional Staff Training	15,607	11,194	(4,413)
General Support Services	45,573	38,258	(7,315)
Board of Education	21,163	13,183	(7,980)
School Administration	287,886	374,051	86,165
Facilities Acquisition	473,106	496,603	23,497
Fiscal Services	115,155	115,468	313
Food Services	17,069	15,117	(1,952)
Operation of Plant	114,183	129,742	15,559
Maintenance of Plant	18,360	28,519	10,159
Community Service	77,257	113,217	35,960
Interest on Debt	2,293	-	(2,293)
Unallocated Depreciation	17,496	29,361	11,865
Total Expenses	2,542,054	2,938,538	396,484
Increase/(Decrease) in Net Assets	\$ 376,315	\$ 274,877	\$ (101,438)

The largest revenue source for the School is the State of Florida (84%). 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 10% or \$295,046 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 combined fund balance of \$490,554.

BUDGETARY HIGHLIGHTS

The general fund budget for the fiscal year ended June 30, 2012, 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, 2012, 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, 2012, amounts to \$165,929 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures, and equipment, computer equipment and leasehold improvements. 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, 2012

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 467,380
Accounts Receivable	1,250
Deposits	<u>31,000</u>
Total Current Assets	<u>499,630</u>
Capital Assets:	
Computer Equipment, Net	66,788
Furniture, Fixtures, and Equipment, Net	50,825
Leasehold Improvements, Net	<u>48,316</u>
Total Capital Assets, Net	<u>165,929</u>
TOTAL ASSETS	<u><u>\$ 665,559</u></u>
LIABILITIES	
Accounts Payable	<u>\$ 9,076</u>
Total Liabilities	<u>9,076</u>
NET ASSETS	
Invested in Capital Assets	165,929
Unrestricted	<u>490,554</u>
Total Net Assets	<u>656,483</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 665,559</u></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**

**STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012**

	Expenses	Program Revenues			Net (Expenses) Revenue and Changes	Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Assets Governmental Activities	
Governmental Activities:						
Instruction	\$ 1,572,256	\$ -	\$ 7,959	\$ -	\$ (1,564,297)	\$ (1,564,297)
Instructional Media	494				(494)	(494)
Instruction & Curriculum Development	1,075				(1,075)	(1,075)
Instructional Staff Training	11,194				(11,194)	(11,194)
General Support Services	38,258				(38,258)	(38,258)
Board of Education	13,183				(13,183)	(13,183)
School Administration	374,051				(374,051)	(374,051)
Facilities Acquisition	496,603			198,475	(298,128)	(298,128)
Fiscal Services	115,468				(115,468)	(115,468)
Food Services	15,117	10,645			(4,472)	(4,472)
Operation of Plant	129,742				(129,742)	(129,742)
Maintenance of Plant	28,519				(28,519)	(28,519)
Community Service	113,217				(113,217)	(113,217)
Unallocated Depreciation	29,361				(29,361)	(29,361)
Total Governmental Activities	\$ 2,938,538	\$ 10,645	\$ 7,959	\$ 198,475	(2,721,459)	(2,721,459)
General Revenues:						
State and Local Sources					2,897,525	2,897,525
Contributions and Other					98,811	98,811
Total General Revenues					2,996,336	2,996,336
Change in Net Assets					274,877	274,877
Net Assets - July 1, 2011					381,606	381,606
Net Assets - June 30, 2012					\$ 656,483	\$ 656,483

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, 2012***

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 467,380	\$ -	\$ 467,380
Accounts Receivable	1,250		1,250
Deposits	31,000		31,000
TOTAL ASSETS	\$ 499,630	\$ -	\$ 499,630
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 9,076	\$ -	\$ 9,076
Total Liabilities	9,076	-	9,076
Fund Balances:			
Nonspendable	31,000		31,000
Spendable:			
Unassigned	459,554		459,554
Total Fund Balances	490,554	-	490,554
TOTAL LIABILITIES AND FUND BALANCES	\$ 499,630	\$ -	\$ 499,630

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, 2012

Total Fund Balances - Governmental Funds	\$ 490,554
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.	165,929
	<hr/>
Total Net Assets - Governmental Activities	<u><u>\$ 656,483</u></u>

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, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Intergovernmental:			
Federal Through Local	\$ 7,959	\$ -	\$ 7,959
State and Local	2,908,170	198,475	3,106,645
Contributions and Other	98,811	-	98,811
Total Revenues	3,014,940	198,475	3,213,415
Expenditures			
Current - Education:			
Instruction	\$ 1,572,256	\$ -	\$ 1,572,256
Instructional Media	494		494
Instruction & Curriculum Development	1,075		1,075
Instructional Staff Training	11,194		11,194
General Support Services	38,258		38,258
Board of Education	13,183		13,183
School Administration	374,051		374,051
Facilities Acquisition		496,603	496,603
Fiscal Services	115,468		115,468
Food Services	15,117		15,117
Operation of Plant	129,742		129,742
Maintenance of Plant	28,519		28,519
Community Service	113,217		113,217
Fixed Capital Outlay:			
Other Capital Outlay	110,216		110,216
Total Expenditures	2,522,790	496,603	3,019,393
Excess (Deficiency) of Revenues			
Over/(Under) Expenditures	492,150	(298,128)	194,022
Other Financing Sources (Uses):			
Transfers In		298,128	298,128
Transfers Out	(298,128)		(298,128)
Total Other Financing Sources (Uses)	(298,128)	298,128	-
Net Change in Fund Balances	194,022	-	194,022
Fund Balances, July 1, 2011	296,532	-	296,532
Fund Balances, June 30, 2012	\$ 490,554	\$ -	\$ 490,554

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, 2012***

Net Change in Fund Balances - Governmental Funds \$ 194,022

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 (\$110,216) in excess of depreciation expense (\$29,361) in the current period.

80,855

Change in Net Assets - Governmental Activities

\$ 274,877

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Orlando Science Middle/High Charter Schools (“School”), a component unit of Orange County School Board, Florida, is sponsored by its charter-holder, Discovery Educational Services, Inc., 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 financial information presented is that of Orlando Science Middle/High Charter Schools.

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.

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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.
- 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 related fund liability is incurred, except for principal and interest on long-term

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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
Leasehold Improvements	10 years

➤ **Net Assets and Fund Balance Classification**

Government-wide financial statements

Net assets are classified and reported in three components:

- Investment in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

- Restricted net assets – consists of net assets with constraints placed on their use either by external groups such as creditors, contributors, or laws or regulations of other governments.
- Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund financial statements

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

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

➤ **Order of Fund Balance Spending Policy**

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

➤ **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 (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, 2012, the School reported 487 unweighted and 491.08 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

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, 2012

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.

➤ **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.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Computer Equipment	\$ 61,181	\$ 42,193		\$ 103,374
Furniture, Fixtures and Equipment	57,823	17,164		74,987
Leasehold Improvements		50,859		50,859
Total Capital Assets Being Depreciated	<u>119,004</u>	<u>110,216</u>	<u>-</u>	<u>229,220</u>
Less Accumulated Depreciation for:				
Computer Equipment	(20,130)	(16,456)		(36,586)
Furniture, Fixtures and Equipment	(13,800)	(10,362)		(24,162)
Leasehold Improvements		(2,543)		(2,543)
Total Accumulated Depreciation	<u>(33,930)</u>	<u>(29,361)</u>	<u>-</u>	<u>(63,291)</u>
Governmental Activities Capital Assets, net	<u>\$ 85,074</u>	<u>\$ 80,855</u>	<u>\$ -</u>	<u>\$ 165,929</u>

Unallocated depreciation amounted to \$29,361 for the fiscal year ended June 30, 2012.

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, 2012

3. SCHEDULE OF FEDERAL, STATE & LOCAL REVENUE SOURCES

The following is a schedule of the School's Federal, State and local revenue for the 2011-12 fiscal year:

Source	Amount
<i><u>FEDERAL:</u></i>	
Title II	\$ 7,959
Total Federal Sources	7,959
<i><u>STATE:</u></i>	
Florida Education Finance Program	1,714,663
Categorical Educational Programs:	
Class Size Reduction Allocation	447,211
ESE Guaranteed Allocation	128,661
Supplementary Academic Instruction	100,489
Instructional Materials	38,328
Safe Schools	10,931
Discretionary Lottery	1,506
Capital Outlay	198,475
School Recognition	28,981
Merit Award Program	17,710
Florida Teachers' Lead Program	5,148
Miscellaneous State	8,479
Total State Revenue	2,700,582
<i><u>LOCAL:</u></i>	
Discretionary Local Effort	395,418
Student Lunches	10,645
Total Local Revenue	406,063
Total State and Local Revenue	\$3,106,645

As provided in the charter school contract, the District has charged the School an administrative fee totaling \$72,824.

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

4. 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.

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

5. OPERATING LEASE

The School entered into a lease agreement with Building 7 Development, LLC, starting September 1, 2008 through June 30, 2013, for its educational facility. The agreement calls for initial monthly base 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. The agreement also calls for an additional monthly rent payment of \$17,883 for improvements made to the facilities by the Landlord. Total rent expense charged to operations for the year ended June 30, 2012 totaled \$489,292.

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

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

6. 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.

7. 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 collectability of any related receivables at June 30, 2012, 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.

8. LEGAL MATTERS

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. The School has no legal actions or pending proceedings in progress.

9. SUBSEQUENT EVENTS

Management has evaluated all events subsequent to the balance sheet date and through the report date, which is the date these financial statements were available to be issued. Management determined there are no subsequent events which require disclosure.

**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 (Unaudited)
For the Fiscal Year Ended June 30, 2012**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
Federal Through Local	\$ -	\$ 7,959	\$ 7,959	\$ -
State and Local	2,970,273	2,908,170	2,908,170	-
Contributions and Other	64,336	98,811	98,811	-
Total Revenues	3,034,609	3,014,940	3,014,940	-
Expenditures:				
Current - Education:				
Instruction	1,665,763	1,572,256	1,572,256	-
Instructional Media	223	494	494	-
Instruction & Curriculum Development	1,075	1,075	1,075	-
Instructional Staff Training	8,694	11,194	11,194	-
General Support Services	20,707	38,258	38,258	-
Board of Education	13,539	13,183	13,183	-
School Administration	350,946	374,051	374,051	-
Facilities Acquisition	520,519	-	-	-
Fiscal Services	41,814	115,468	115,468	-
Food Services	11,586	15,117	15,117	-
Operation of Plant	205,536	129,742	129,742	-
Maintenance of Plant	28,078	28,519	28,519	-
Community Service	63,146	113,217	113,217	-
Fixed Capital Outlay:				
Other Capital Outlay		110,216	110,216	-
Total Expenditures	2,931,626	2,522,790	2,522,790	-
Excess (Deficiency) of Revenues Over/(Under) Expenditures	102,983	492,150	492,150	
Other Financing Sources (Uses):				
Transfers In				-
Transfers Out		(298,128)	(298,128)	-
Total Other Financing Sources (Uses)	-	(298,128)	(298,128)	-
Net Change in Fund Balance	102,983	194,022	194,022	-
Fund Balance, July 1, 2011	296,532	296,532	296,532	-
Fund Balance, June 30, 2012	\$ 399,515	\$ 490,554	\$ 490,554	\$ -

See Independent Auditor's Report.

Members:
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Government Audit Quality Center

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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, 2012, 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, 2012, 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 7, 2012
Tampa, Florida

Members:
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Government Audit Quality Center

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**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, 2012, and have issued our report thereon dated September 7, 2012.

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 7, 2012. 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 and recommendations.

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 Q Walker, CPAs

September 7, 2012
Tampa, 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, 2012

The following is the School's response to the item in the Management Letter dated September 7, 2012, as required by Rule 10.857, Rules of the Auditor General:

No response required.