

**MILESTONES
COMMUNITY
SCHOOL OF LAKE
COUNTY
(A Division of Milestones
Community School of
Lake County, Inc.)**

**Basic Financial Statements and
Supplemental Information**

**For the year ended
June 30, 2013**

**BERMAN HOPKINS
WRIGHT & LAHAM
CPAS AND ASSOCIATES, LLP**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Milestones Community School of Lake County, Inc.
Sorrento, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund information of Milestones Community School of Lake County (the "School"), a component unit of the School Board of Lake County, Florida and a division of Milestones Community School of Lake County, Inc., (the "Charterholder") and a component unit of the School Board of Lake County, Florida, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund information of the School, as of June 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of the School at June 30, 2013, and the results of its operation for the year then ended, and is not intended to be a complete presentation of the Charterholder.

As discussed in Note A-12 to the financial statements, the School adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2013 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

September 14, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Management's Discussion and Analysis

As management of Milestones Community School of Lake County (the "School"), which is a component unit of the School Board of Lake County, Florida, a division of Milestones Community School of Lake County, Inc. (the "Charterholder"), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2013 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the School's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Since the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the basic financial statements found starting on page 8.

Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$364,366 (net position).
- The School's total net position decreased by \$31,263.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$20,490.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$16,307.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the School's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the School that are principally supported by district, state, and federal funding (governmental activities). Basic instruction, exceptional instruction, and food services are examples of the School's governmental activities.

The government-wide financial statements include only the School itself, which is a component unit of the School Board of Lake County, Florida. The School Board of Lake County, Florida includes the operations of the School in their operational results.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A fund is a collection of related accounts grouped together to maintain control over resources that have been segregated for specific activities or objectives. The School, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the operations of the School are presented in governmental funds only.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term* inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. The general fund and capital outlay fund are considered to be major funds.

The basic governmental fund financial statements can be found on pages 10 through 13 of this report.

The School adopts an annual appropriated budget for its entire operations. Budgetary comparison schedules and notes to these schedules have been provided to demonstrate compliance with this budget and can be found on pages 24 through 26 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 14 of this report.

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of a School's financial position. In the case of the School, for the years ended June 30, 2013 and 2012, assets exceeded liabilities by \$364,366 (net position) and \$395,629 (net position), respectively.

The largest portion of the School's net position reflects its investment in capital assets (e.g., buildings, improvements other than buildings, furniture, fixtures, and equipment, and information technology equipment). The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

Comparison of the condensed statement of net position and the statement of activities are provided below:

Statement of Net Position			
Governmental Activities			
	2013	2012	Variance
ASSETS			
Current and other assets	\$ 80,804	\$ 94,052	\$ (13,248)
Capital assets, net of accumulated depreciation	343,876	363,678	(19,802)
Total assets	424,680	457,730	(33,050)
LIABILITIES			
Current and other liabilities	60,314	62,101	(1,787)
NET POSITION:			
Invested in capital assets	343,876	363,678	(19,802)
Restricted for:			
Unrestricted	20,490	31,951	(11,461)
Total net position	<u>\$ 364,366</u>	<u>\$ 395,629</u>	<u>\$ (31,263)</u>

Current and other assets decreased due to results on operations. Capital assets and invested in capital assets both decreased due to approximately \$20,000 of depreciation expense. Current and other liabilities decreased as a result of less days needing to be accrued for payroll at June 30, 2013.

The following table indicates the changes in net position for the School:

Statement of Activities			
	Governmental Activities		
	2013	2012	Variance
Revenues:			
Program revenues:			
Operating grants and contributions	\$ 76,026	\$ 78,985	\$ (2,959)
General revenues:			
State passed through local school district	1,069,796	1,150,607	(80,811)
Other revenues	6,445	603	5,842
Total revenues	<u>1,152,267</u>	<u>1,230,195</u>	<u>(77,928)</u>
Expenses			
Basic instruction	542,043	536,391	5,652
Exceptional instruction	22,052	23,360	(1,308)
Psychological services	11,901	9,453	2,448
Staff development	820	251	569
Board of directors	6,647	10,375	(3,728)
School administration	129,549	192,952	(63,403)
Facilities	175,236	184,575	(9,339)
Fiscal services	78,240	116,222	(37,982)
Food services	22,763	2,393	20,370
Staff services	8,222	9,933	(1,711)
Transportation	85,623	108,887	(23,264)
Operation of plant	88,662	91,479	(2,817)
Maintenance of plant	11,772	9,815	1,957
Total expenses	<u>1,183,530</u>	<u>1,296,086</u>	<u>(112,556)</u>
Change in net position	(31,263)	(65,891)	34,628
Net position - beginning	<u>395,629</u>	<u>461,520</u>	<u>(65,891)</u>
Net position - ending	<u>\$ 364,366</u>	<u>\$ 395,629</u>	<u>\$ (31,263)</u>

The decrease of \$80,811 in state passed through local school district is due to a decrease in the number of students. Basic instruction increased \$5,652 due to an increase in salaries expense because of new staff hired with more teaching experience. School administration decreased due to a onetime occurrence of a deposit forfeiture in 2012. Transportation decreased due to change in allocation of salaries.

Governmental activities. Governmental activities decreased the School's net position by \$31,263 for the year ended June 30, 2013.

Financial Analysis of the Government's Funds

As noted previously, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the School's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a School's net resources available for spending at the end of the fiscal year.

The general fund is the main operating fund of the School. At the end of the current fiscal year, unassigned fund balance of the general fund was \$16,307. The fund balance of the School's general fund decreased by \$11,461 during the current fiscal year.

General Fund Budgetary Highlights

The original budgeted revenues decreased by approximately \$82,107 to the final budget, because FTE revenue was expected to be lower as a result of decreased funding from the state. Total expenditures decreased from original to final budget by approximately \$47,246.

Budgeted revenues exceeded actual revenues by \$1,055. Budgeted expenditures exceeded actual expenditures by \$6,925.

Capital assets. The School's investment in capital assets for its governmental activities as of June 30, 2013, amounts to \$343,876 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements other than buildings, furniture, fixtures, and equipment, and information technology equipment. Additional information on the School's capital assets can be found in Note C.

Economic Factors

A majority of the School's funding is determined by the number of enrolled students. The School is forecasting enrollment to increase to approximately 215 students for the 2013-14 school year.

Request for Information

This financial report is designed to provide a general overview of Milestones Community School of Lake County's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The Rader Group, 101-A Business Centre Miramar Beach, FL 32550.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities
	<hr/>
ASSETS	
ASSETS	
Cash	\$ 75,503
Accounts receivable	1,118
Prepaid expenses	<hr/> 4,183
Total current assets	80,804
 CAPITAL ASSETS	
Capital assets, net of accumulated depreciation	
Buildings	285,146
Improvements other than buildings	53,238
Furniture, fixtures, and equipment	<hr/> 5,492
Total capital assets	<hr/> 343,876
Total assets	<hr/> 424,680
LIABILITIES	
LIABILITIES	
Accounts payable	5,081
Accrued payroll and related expenses	<hr/> 55,233
Total liabilities	<hr/> 60,314
NET POSITION	
Investment in capital assets	343,876
Unrestricted	<hr/> 20,490
Total net position	<hr/> \$ 364,366

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

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

STATEMENT OF ACTIVITIES

For the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Basic instruction	\$ 542,043	\$ -	\$ -	\$ -	\$ (542,043)
Exceptional instruction	22,052	-	-	-	(22,052)
Psychological services	11,901	-	-	-	(11,901)
Staff development	820	-	-	-	(820)
Board of directors	6,647	-	-	-	(6,647)
School administration	129,549	-	-	-	(129,549)
Facilities	175,236	-	76,026	-	(99,210)
Fiscal services	78,240	-	-	-	(78,240)
Food services	22,763	-	-	-	(22,763)
Staff services	8,222	-	-	-	(8,222)
Transportation	85,623	-	-	-	(85,623)
Operation of plant	88,662	-	-	-	(88,662)
Maintenance of plant	11,772	-	-	-	(11,772)
Total governmental activities	<u>\$ 1,183,530</u>	<u>\$ -</u>	<u>\$ 76,026</u>	<u>\$ -</u>	<u>(1,107,504)</u>
General revenues:					
State passed through local school district					1,069,796
Other revenues					<u>6,445</u>
Total general revenues					<u>1,076,241</u>
Change in net position					(31,263)
Net position at July 1, 2012					<u>395,629</u>
Net position at June 30, 2013					<u>\$ 364,366</u>

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

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Capital Outlay Fund	Total Governmental Funds
ASSETS			
Cash	\$ 75,503	\$ -	\$ 75,503
Accounts receivable	1,118	-	1,118
Prepaid expenses	4,183	-	4,183
Total assets	<u>\$ 80,804</u>	<u>\$ -</u>	<u>\$ 80,804</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 5,081	\$ -	\$ 5,081
Accrued payroll and related expenses	55,233	-	55,233
Total liabilities	<u>60,314</u>	<u>-</u>	<u>60,314</u>
FUND BALANCES			
Nonspendable			
Prepaid expenses	4,183	-	4,183
Unassigned	16,307	-	16,307
Total fund balances	<u>20,490</u>	<u>-</u>	<u>20,490</u>
Total liabilities and fund balances	<u>\$ 80,804</u>	<u>\$ -</u>	<u>\$ 80,804</u>

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

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION

June 30, 2013

Fund balances - total governmental funds	\$ 20,490
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The net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of:

Buildings, net	\$ 285,146	
Improvements other than buildings, net	53,238	
Furniture, fixtures, and equipment, net	<u>5,492</u>	
Total capital assets		<u>343,876</u>

Total net assets of governmental activities	<u><u>\$ 364,366</u></u>
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The accompanying notes are an integral part of this financial statement.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

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

For the year ended June 30, 2013

	General Fund	Capital Outlay Fund	Total Governmental Funds
Revenues			
State passed through local school district	\$ 1,069,796	\$ 76,026	\$ 1,145,822
Other revenues	6,445	-	6,445
Total revenues	<u>1,076,241</u>	<u>76,026</u>	<u>1,152,267</u>
Expenditures			
Current:			
Basic instruction	542,043	-	542,043
Exceptional instruction	22,052	-	22,052
Psychological services	11,901	-	11,901
Staff development	820	-	820
Board of directors	6,647	-	6,647
School administration	129,383	-	129,383
Facilities	81,671	76,026	157,697
Fiscal services	78,240	-	78,240
Food services	21,002	-	21,002
Staff services	8,222	-	8,222
Transportation	85,623	-	85,623
Operation of plant	88,326	-	88,326
Maintenance of plant	11,772	-	11,772
Total expenditures	<u>1,087,702</u>	<u>76,026</u>	<u>1,163,728</u>
Net change in fund balances	(11,461)	-	(11,461)
Fund balances at July 1, 2012	<u>31,951</u>	<u>-</u>	<u>31,951</u>
Fund balances at June 30, 2013	<u>\$ 20,490</u>	<u>\$ -</u>	<u>\$ 20,490</u>

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

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES**

For the year ended June 30, 2013

Net change in fund balances - total government funds	\$	(11,461)
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The change in net assets reported for governmental activities
in the statement of activities is different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the costs of those
assets is allocated over their estimated useful lives and
reported as depreciation expense.

Less: depreciation	<u>\$ (19,802)</u>	<u>(19,802)</u>
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Change in net assets of governmental activities	\$	<u><u>(31,263)</u></u>
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The accompanying notes are an integral part of this financial statement.

**Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Milestones Community School of Lake County (the "School") is a division of Milestones Community School of Lake County, Inc. (the "Charterholder"), 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 Board of Directors, which is composed of five members. The financial information presented is that of the School only and is not intended to be a complete presentation of the Charterholder.

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, which is the School Board of Lake County, Florida (the "District"). The current charter is effective through June 30, 2014. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. Milestones Community School of Lake County is considered a component unit of the School Board of Lake County, Florida.

2. Government-wide and fund financial statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements report information on all of the nonfiduciary activities of the School. As part of the consolidation process, all interfund activities are eliminated from these statements. Both statements report only governmental activities as the School does not engage in any business type activities.

Net position, the difference between assets and liabilities, as presented in the statement of net position, are subdivided into three categories: amounts invested in capital assets, restricted net position, and unrestricted net position. Net position is reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, laws or regulations of other governments, or enabling legislation.

The statement of activities presents a comparison between the direct and indirect expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net position for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function.

Indirect expenses are costs the School has allocated to various functions. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions.

**Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Government-wide and fund financial statements (continued)

Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements are on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. Two of the School's funds were deemed major funds. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

3. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized when a liability is incurred.

All governmental fund financial statements are reported using a current financial resources measurement focus on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. 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 recorded when the related fund liability is incurred. However, principal and interest on general long-term debt are recorded as expenditures only when payment is due.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus, basis of accounting, and financial statement presentation (continued)

The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Accordingly, the financial statements are organized on the basis of funds. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund equity, revenues, expenditures, and other financing sources and uses.

Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The School reports the following major governmental funds:

General Fund - is the general operating fund of the School and is used to account for all financial resources not required to be accounted for in another fund.

Capital Outlay Fund - in accordance with guidelines established by the School Board of Lake County, Florida this fund accounts for all resources for the leasing or acquisition of capital facilities by the School to the extent funded by capital outlay funds.

4. Cash

Cash is made up of checking accounts held at a financial institution. The School has no cash equivalents.

5. Receivables

Receivables include accounts receivable. The School's management has determined that 100% of receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

6. Prepaid expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2013 are recorded as prepaid expenses in both government-wide and fund financial statements.

**Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Capital assets

Capital assets are reported in the governmental columns on the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$750 and an estimated useful life of more than one year. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair values at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	5 - 39
Improvements other than buildings	15 - 39
Furniture, fixtures, and equipment	5 - 7
Information technology equipment	3

8. Revenue sources

Revenues for current operations are received primarily from the State of Florida passed through 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 (FTE) students and related data to the District.

Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted FTE students reported by the School during the designated FTE student survey periods.

The School receives federal awards for the enhancement of various educational programs. This assistance is generally based on applications submitted to and approved by various granting agencies. These federal awards may have requirements whereby the issuance of grant funds is withheld until qualifying eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

Additionally, other revenues may be derived from various fundraising activities and certain other programs.

**Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Income taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The School recognizes the financial statement effects from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the School and various positions related to the potential sources of unrelated business taxable income (UBIT). The assessment of the technical merits of a tax position is a matter of judgment. The School believes that all its tax positions are more likely than not to be sustained upon examination.

The School files Form 990 in the U.S. federal jurisdiction. The School is generally no longer subject to examination by the Internal Revenue Service for years ending before June 30, 2010.

10. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

11. Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

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

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

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Fund balance classification (continued)

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

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

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

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

12. New accounting pronouncements

GASB Statement No. 63 - In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources as defined by GASB's Concepts Statement No. 4. It also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows and deferred inflows of resources into the definition of net assets and by renaming it as net position, rather than net assets. The requirements of this Statement will improve financial reporting by standardizing the presentation and their effects on a government's net position. The provisions of this Statement will be effective for the fiscal year ending June 30, 2013.

NOTE B - CASH

Custodial Credit Risk - Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. The deposits are insured by the FDIC up to \$250,000 per financial institution. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the School pursuant to Section 280.08, Florida Statutes. At June 30, 2013, the School's deposits were not exposed to custodial credit risk.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE C - CAPITAL ASSETS

Changes in capital assets are as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets depreciated:				
Buildings	\$ 393,024	\$ -	\$ -	\$ 393,024
Improvements other than buildings	83,037	-	-	83,037
Furniture, fixtures, and equipment	36,438	-	-	36,438
Information technology equipment	1,702	-	-	1,702
Total assets depreciated	514,201	\$ -	\$ -	514,201
Less accumulated depreciation:				
Buildings	94,876	\$ 13,002	\$ -	107,878
Improvements other than buildings	25,284	4,515	-	29,799
Furniture, fixtures, and equipment	28,661	2,285	-	30,946
Information technology equipment	1,702	-	-	1,702
Total accumulated depreciation	150,523	\$ 19,802	\$ -	170,325
Total governmental activities capital assets, net	<u>\$ 363,678</u>			<u>\$ 343,876</u>

Depreciation expense for the year ended June 30, 2013 was charged to functions of the School as follows:

Facilities	\$ 17,539
Food services	1,761
Operation of plant	336
School administration	166
	<u>\$ 19,802</u>

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE D - COMMITMENTS AND CONTINGENCIES

1. Operating leases

The School entered into a facility lease agreement with a third party effective July 1, 2011 which expires on June 30, 2016. The base monthly payments are \$13,428 for the current year, including taxes and insurance and the full utilization of the gymnasium. For the year ended June 30, 2013 operating lease expenses charged to operations were \$157,572.

2. Management service contract

The School has entered into a cancelable service agreement with a third party management service, which commenced on January 28, 2002. An extension of this agreement has been approved and will expire in June 2014. The management fee is calculated at the Board of Directors discretion and will be approved in the budget process. The approved management fee will be payable in twelve monthly installments. For the year ending June 30, 2013, the management fee was \$65,372.

NOTE E - RELATED PARTY TRANSACTION

1. Management service contract

The management company provides oversight and management services based on a contractual arrangement with the School. The management company manages the finances and operations and makes recommendations to the School's independent Board of Directors, which makes the final determinations regarding policies and contracts. For the year ending June 30, 2013, the management fee was \$65,372 (see Note D-2).

2. Board members

An administrator at two other schools that are managed by the same management company was a board member for the School until March 2013.

**Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F - CONCENTRATIONS

Revenue sources

As stated in Note A-8, the School receives revenues for current operations primarily from the State of Florida through the local school district. The following is a schedule of revenue sources and amounts:

<u>Sources</u>	<u>Amounts</u>
Revenue sources passed through the School Board of Lake County, Florida:	
Base funding	\$ 698,216
Class size reduction	206,386
Discretionary local effort	50,613
Student transportation	46,130
Supplemental academic instruction	44,899
ESE guaranteed allocation	43,645
Discretionary millage compression	15,780
Library media	13,258
Safe schools	3,660
Lead teacher program	2,555
Instructional materials allocation	824
Administration fee withheld (5%)	(56,170)
Subtotal	1,069,796
Capital outlay	76,026
Total revenues sources passed through the School Board of Lake County, Florida	1,145,822
Contributions	293
Other revenues	6,152
	<u>\$ 1,152,267</u>

NOTE G - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. Under the property insurance plan the School's liability is \$1,000 per occurrence. There have been no significant reductions in insurance coverage during the fiscal year 2013. Settled claims resulting from the risks described above have not exceeded the insurance coverage for the previous three years.

NOTE H - SUBSEQUENT EVENT

The School has evaluated subsequent events through September 14, 2013, the date which the financial statements were available for issuance, and has determined that no material events occurred that would require additional disclosure in the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND**

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
FTE revenue	\$ 1,149,413	\$ 1,067,241	\$ 1,067,241	\$ -
Lead teacher funds	2,390	2,555	2,555	-
Miscellaneous	7,600	7,500	6,445	(1,055)
Total revenues	1,159,403	1,077,296	1,076,241	(1,055)
Expenditures				
Salaries	578,053	578,000	577,608	392
Social security	44,221	44,642	44,629	13
Group insurance	65,623	55,500	55,119	381
Worker's compensation	10,000	8,000	7,785	215
Unemployment compensation	12,000	12,500	12,369	131
Management services	103,447	65,372	65,372	-
ESE services	20,000	36,000	34,003	1,997
Computer services	2,000	1,908	1,908	-
Staff development	1,000	4,070	4,070	-
Auditing services	10,500	10,700	10,700	-
Insurance	23,500	23,000	22,869	131
Travel	4,000	3,600	3,516	84
Repairs and maintenance	7,500	10,500	11,463	(963)
Vehicle maintenance	14,000	18,000	16,565	1,435
Fire alarm inspections	-	300	286	14
Rental	100	-	-	-
Copier lease	3,165	3,165	3,165	-
Facility lease	93,864	81,546	81,546	-
Postage	3,100	2,200	2,329	(129)
Telephone	7,500	6,800	6,507	293
Water and sewer	3,200	3,000	2,838	162
Garbage	4,500	4,000	3,551	449
Printing/advertising	1,800	3,000	2,992	8
Non-professional service	2,000	1,270	1,270	-
Security/fire alarm	1,200	1,200	1,200	-
Custodial service	16,600	5,000	4,760	240
Electricity	25,000	23,000	22,904	96
Vehicle gasoline	24,000	21,500	21,043	457
Supplies	25,000	27,000	25,699	1,301
Textbooks	20,000	18,500	18,452	48
AV equipment	-	606	606	-
Furniture, equipment under \$750	3,000	2,100	2,091	9
Computer software under \$750	4,000	4,648	4,648	-
Dues and fees	2,000	3,000	2,984	16
Other personal services	6,000	11,000	10,855	145
Total expenditures	1,141,873	1,094,627	1,087,702	6,925
Excess (deficiency) of revenues over (under) expenditures	17,530	(17,331)	(11,461)	5,870
Fund balance at July 1, 2012	31,951	31,951	31,951	-
Fund balance at June 30, 2013	\$ 49,481	\$ 14,620	\$ 20,490	\$ 5,870

See accompanying note to required supplemental information.

Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CAPITAL OUTLAY FUND**

For the year ended June 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Charter school capital outlay	<u>\$ 69,132</u>	<u>\$ 76,026</u>	<u>\$ 76,026</u>	<u>\$ -</u>
Expenditures				
Facility lease	<u>69,132</u>	<u>76,026</u>	<u>76,026</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 2013	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying note to required supplemental information.

**Milestones Community School of Lake County
(A Division of Milestones Community School of Lake County, Inc.)**

NOTE TO REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2013

NOTE A - BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for the general fund, capital outlay fund and individual grants and may be amended by the Board of Directors (the "Board"). The budgets presented for fiscal year ended June 30, 2013, have been amended according to Board procedures.

Budgets are presented on the modified accrual basis of accounting. The legal level of budgetary control is the fund level.

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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
Milestones Community School of Lake County, Inc.
Leesburg, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milestones Community School of Lake County (the "School"), a component unit of the School Board of Lake County, Florida and a division of Milestones Community School of Lake County, Inc., (the "Charterholder"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 14, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

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MANAGEMENT LETTER

To the Board of Directors
Milestones Community School of Lake County, Inc.
Leesburg, Florida

We have audited the financial statements of Milestones Community School of Lake County (the "School"), a component unit of the School Board of Lake County, Florida and a division of Milestones Community School of Lake County, Inc., (the "Charterholder"), as of and for the fiscal year ended June 30, 2013, and have issued our report thereon dated September 14, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated August 27, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' report:

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings and recommendations made in the preceding annual financial audit report.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the School has met one or more of the conditions in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that Milestones Community School of Lake County did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)5., Rules of the Auditor General, requires the official title of the entity. The official title of the school is *Milestones Community School of Lake County*, a division of Milestones Community School of Lake County, Inc. which 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.
- Pursuant to Sections 10.854(1)(e)6.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor Milestones Community School of Lake County'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.

Our management letter is intended solely for the information and use of the School's management, Board of Directors, others within the School, the School Board of Lake County, Florida, the State of Florida Office of the Auditor General, Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 14, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

FINDINGS, RECOMMENDATIONS, AND OTHER MATTERS

For the prior year ended June 30, 2012, there are no management recommendations.

For the current year ended June 30, 2013, there are no management recommendations.