

**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, 2012**

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

## TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	25
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Capital Outlay Fund	26
Note to Required Supplemental Information	27
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	28
MANAGEMENT LETTER	30
FINDINGS, RECOMMENDATIONS, AND OTHER MATTERS	32

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying 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, 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 basic financial statements based on our audit.

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

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of the School at June 30, 2012, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of the Charterholder.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2012, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 25 through 27, respectively, 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.

September 21, 2012  
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, 2012 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 \$395,629 (net assets).
- The School's total net assets decreased by \$65,891.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$31,951.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$27,899.

### 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 assets presents information on all of the School's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 25 through 27 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 assets 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, 2012 and 2011, assets exceeded liabilities by \$395,629 (net assets) and \$461,520 (net assets), respectively.

The largest portion of the School's net assets 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 assets and the statement of activities are provided below:

<b>Statement of Net Assets</b>			
<b>Governmental Activities</b>			
	<b>2012</b>	<b>2011</b>	<b>Variance</b>
<b>ASSETS</b>			
Current and other assets	\$ 94,052	\$ 113,266	\$ (19,214)
Capital assets, net of accumulated depreciation	363,678	382,247	(18,569)
Total assets	457,730	495,513	(37,783)
<b>LIABILITIES</b>			
Current and other liabilities	62,101	33,993	28,108
<b>NET ASSETS:</b>			
Invested in capital assets	363,678	382,247	(18,569)
Restricted for:			
Unrestricted	31,951	79,273	(47,322)
Total net assets	\$ 395,629	\$ 461,520	\$ (65,891)

Current and other assets decreased due to a deposit for \$20,000 that was expensed in the current year because the School forfeited it and no longer had rights to the funds; see Note A-1 for more information. Capital assets and invested in capital assets both decreased due to approximately \$20,000 of depreciation expense. Current and other liabilities increased as a result of more days needing to be accrued for payroll at June 30, 2012.

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

<b>Statement of Activities</b>			
	<b>Governmental Activities</b>		
	<b>2012</b>	<b>2011</b>	<b>Variance</b>
Revenues:			
Program revenues:			
Operating grants and contributions	\$ 76,595	\$ 84,948	\$ (8,353)
General revenues:			
State passed through local school district	1,152,997	1,201,346	(48,349)
Other revenues	603	7,139	(6,536)
Total revenues	<u>1,230,195</u>	<u>1,293,433</u>	<u>(63,238)</u>
Expenses			
Basic instruction	536,391	573,713	(37,322)
Exceptional instruction	23,360	11,385	11,975
Psychological services	9,453	7,042	2,411
Staff development	251	8,405	(8,154)
Board of directors	10,375	8,981	1,394
School administration	192,952	200,664	(7,712)
Facilities	184,575	134,294	50,281
Fiscal services	116,222	116,961	(739)
Food services	2,393	3,185	(792)
Staff services	9,933	10,979	(1,046)
Transportation	108,887	115,400	(6,513)
Operation of plant	91,479	80,990	10,489
Maintenance of plant	9,815	11,310	(1,495)
Total expenses	<u>1,296,086</u>	<u>1,283,309</u>	<u>12,777</u>
Change in net assets	(65,891)	10,124	(76,015)
Net assets - beginning	<u>461,520</u>	<u>451,396</u>	<u>10,124</u>
Net assets - ending	<u>\$ 395,629</u>	<u>\$ 461,520</u>	<u>\$ (65,891)</u>

The decrease of \$48,349 in state passed through local school district is due to a decrease in the state base funding per student. Basic instruction decreased \$37,322 due to a decrease in salaries expense because of a reduction in teachers in the current year. Facilities expense increased \$50,281 was the result of a new lease addendum that included a rental increase for full use of a gymnasium that was added to the lease in the current year. See Note D-1 for more information.

**Governmental activities.** Governmental activities decreased the School's net assets by \$65,891 for the year ended June 30, 2012.

### 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 \$27,899. The fund balance of the School's general fund decreased by \$47,322 during the current fiscal year.

### **General Fund Budgetary Highlights**

The original budgeted revenues decreased by approximately \$33,000 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 \$19,000.

Budgeted revenues exceeded actual revenues by \$397. Budgeted expenditures exceeded actual expenditures by \$2,701.

### **Capital Assets**

**Capital assets.** The School's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$363,678 (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 remain static at approximately 220 students for the 2012-13 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 ASSETS**

**June 30, 2012**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>ASSETS</b>	
Cash	\$ 88,967
Accounts receivable	1,033
Prepaid expenses	<u>4,052</u>
Total current assets	94,052
 <b>CAPITAL ASSETS</b>	
Capital assets, net of accumulated depreciation	
Buildings	298,148
Improvements other than buildings	57,753
Furniture, fixtures, and equipment	<u>7,777</u>
Total capital assets	<u>363,678</u>
Total assets	<u>457,730</u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accounts payable	2,967
Accrued payroll and related expenses	<u>59,134</u>
Total liabilities	<u>62,101</u>
 <b>NET ASSETS</b>	
Investment in capital assets	363,678
Unrestricted	<u>31,951</u>
Total net assets	<u><u>\$ 395,629</u></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.)**

**STATEMENT OF ACTIVITIES**

**For the year ended June 30, 2012**

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	\$ 536,391	\$ -	\$ -	\$ -	\$ (536,391)
Exceptional instruction	23,360	-	-	-	(23,360)
Psychological services	9,453	-	-	-	(9,453)
Staff development	251	-	-	-	(251)
Board of directors	10,375	-	-	-	(10,375)
School administration	192,952	-	-	-	(192,952)
Facilities	184,575	-	76,595	-	(107,980)
Fiscal services	116,222	-	-	-	(116,222)
Food services	2,393	-	-	-	(2,393)
Staff services	9,933	-	-	-	(9,933)
Transportation	108,887	-	-	-	(108,887)
Operation of plant	91,479	-	-	-	(91,479)
Maintenance of plant	9,815	-	-	-	(9,815)
Total governmental activities	<u>\$ 1,296,086</u>	<u>\$ -</u>	<u>\$ 76,595</u>	<u>\$ -</u>	<u>(1,219,491)</u>
General revenues:					
State passed through local school district					1,152,997
Other revenues					<u>603</u>
Total general revenues					<u>1,153,600</u>
Change in net assets					(65,891)
Net assets at July 1, 2011					<u>461,520</u>
Net assets at June 30, 2012					<u>\$ 395,629</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, 2012**

	General Fund	Capital Outlay Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 88,967	\$ -	\$ 88,967
Accounts receivable	1,033	-	1,033
Prepaid expenses	4,052	-	4,052
Total assets	<u>\$ 94,052</u>	<u>\$ -</u>	<u>\$ 94,052</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 2,967	\$ -	\$ 2,967
Accrued payroll and related expenses	59,134	-	59,134
Total liabilities	<u>62,101</u>	<u>-</u>	<u>62,101</u>
<b>FUND BALANCES</b>			
Nonspendable			
Prepaid expenses	4,052	-	4,052
Unassigned	27,899	-	27,899
Total fund balances	<u>31,951</u>	<u>-</u>	<u>31,951</u>
Total liabilities and fund balances	<u>\$ 94,052</u>	<u>\$ -</u>	<u>\$ 94,052</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 ASSETS**

**June 30, 2012**

Fund balances - total governmental funds	\$ 31,951
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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	\$ 298,148	
Improvements other than buildings, net	57,753	
Furniture, fixtures, and equipment, net	<u>7,777</u>	
Total capital assets		<u>363,678</u>

Total net assets of governmental activities	<u><u>\$ 395,629</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, 2012**

	General Fund	Capital Outlay Fund	Total Governmental Funds
Revenues			
State passed through local school district	\$ 1,152,997	\$ 76,595	\$ 1,229,592
Other revenues	603	-	603
Total revenues	<u>1,153,600</u>	<u>76,595</u>	<u>1,230,195</u>
Expenditures			
Current:			
Basic instruction	536,391	-	536,391
Exceptional instruction	23,360	-	23,360
Psychological services	9,453	-	9,453
Staff development	251	-	251
Board of directors	10,375	-	10,375
School administration	192,786	-	192,786
Facilities	90,193	76,595	166,788
Fiscal services	116,222	-	116,222
Food services	349	-	349
Staff services	9,933	-	9,933
Transportation	108,887	-	108,887
Operation of plant	91,227	-	91,227
Maintenance of plant	9,815	-	9,815
Fixed capital outlay	1,680	-	1,680
Total expenditures	<u>1,200,922</u>	<u>76,595</u>	<u>1,277,517</u>
Net change in fund balances	(47,322)	-	(47,322)
Fund balances at July 1, 2011	<u>79,273</u>	<u>-</u>	<u>79,273</u>
Fund balances at June 30, 2012	<u>\$ 31,951</u>	<u>\$ -</u>	<u>\$ 31,951</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, 2012**

Net change in fund balances - total government funds	\$	(47,322)
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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.

Total fixed capital outlay	\$	1,680	
Less: depreciation		<u>(20,249)</u>	
			<u>(18,569)</u>

Change in net assets of governmental activities	\$	<u>(65,891)</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, 2012**

**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 assets 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 assets, the difference between assets and liabilities, as presented in the statement of net assets, are subdivided into three categories: amounts invested in capital assets, restricted net assets, and unrestricted net assets. Net assets are 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 assets 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, 2012**

**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, 2012**

**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, 2012 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, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

7. Deposits

The School entered into an operating lease for the school facility. The lease had a purchase option that the School put down \$20,000 for, but the option expired and was expensed in the current year. Therefore, there is no balance for deposits for the year ended June 30, 2012.

8. 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 market 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:

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

9. 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

9. Revenue sources (continued)

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.

10. 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, 2009.

11. 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**12. 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.

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.

**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, 2012, 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, 2012**

**NOTE C - CAPITAL ASSETS**

Changes in capital assets are as follows:

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
Capital assets depreciated:				
Buildings	\$ 393,024	\$ -	\$ -	\$ 393,024
Improvements other than buildings	83,037	-	-	83,037
Furniture, fixtures, and equipment	34,758	1,680	-	36,438
Information technology equipment	1,702	-	-	1,702
Total assets depreciated	<u>512,521</u>	<u>\$ 1,680</u>	<u>\$ -</u>	<u>514,201</u>
Less accumulated depreciation:				
Buildings	81,875	\$ 13,001	\$ -	94,876
Improvements other than buildings	20,769	4,515	-	25,284
Furniture, fixtures, and equipment	26,212	2,449	-	28,661
Information technology equipment	1,418	284	-	1,702
Total accumulated depreciation	<u>130,274</u>	<u>\$ 20,249</u>	<u>\$ -</u>	<u>150,523</u>
Total governmental activities capital assets, net	<u>\$ 382,247</u>			<u>\$ 363,678</u>

Depreciation expense for the year ended June 30, 2012 was charged to functions of the School as follows:

Facilities	17,787
Food services	2,044
Operation of plant	252
School administration	166
	<u>\$ 20,249</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**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 \$13,217 for the current year, including taxes and insurance and the full utilization of the gymnasium. For the year ended June 30, 2012 operating lease expenses charged to operations were \$146,788 plus an additional \$20,000 for the forfeited deposit (see Note A-7).

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, 2012, the management fee was \$103,555.

**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, 2012, the management fee was \$103,555 (see Note D-2).

2. Board members

One of the School's board members is part of the management of two other schools which are managed by the same management company.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE F - CONCENTRATIONS**

Revenue sources

As stated in Note A-9, 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	\$ 750,283
Class size reduction	226,147
Discretionary local effort	64,456
Student transportation	55,331
Supplemental academic instruction	48,740
ESE guaranteed allocation	29,341
Discretionary millage compression	15,151
Library media	14,984
Safe schools	4,107
Lead teacher program	2,390
IDEA	1,090
Instructional materials allocation	931
Discretionary lottery	658
Administration fee withheld (5%)	(60,612)
Subtotal	1,152,997
Capital outlay	76,595
Total revenues sources passed through the School Board of Lake County, Florida	1,229,592
Other revenues	603
	<u>\$ 1,230,195</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 2012. Settled claims resulting from the risks described above have not exceeded the insurance coverage for the previous three years.



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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE H - SUBSEQUENT EVENT**

The School has evaluated subsequent events through September 21, 2012, 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, 2012**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
<b>Revenues</b>				
FTE revenue	\$ 1,183,814	\$ 1,150,607	\$ 1,150,607	\$ -
Lead teacher funds	2,326	2,390	2,390	-
Miscellaneous	1,000	1,000	603	(397)
Total revenues	1,187,140	1,153,997	1,153,600	(397)
<b>Expenditures</b>				
Salaries	640,259	605,500	605,321	179
Social security	58,980	49,320	49,321	(1)
Group insurance	66,176	61,000	60,862	138
Worker's compensation	8,200	10,000	9,933	67
Unemployment compensation	11,000	13,000	12,593	407
Management services	106,543	103,555	103,555	-
ESE services	18,000	33,000	32,813	187
Computer services	1,000	525	517	8
Staff development	1,000	500	460	40
Auditing services	10,500	10,500	10,500	-
Other professional services	-	5,650	5,650	-
Insurance	24,251	23,500	23,451	49
Travel	3,000	7,000	6,955	45
Repairs and maintenance	10,000	4,000	3,919	81
Vehicle maintenance	16,000	13,500	13,206	294
Fire alarm inspections	500	175	175	-
Rental	100	100	-	100
Copier lease	3,300	3,300	3,165	135
Facility lease	83,178	90,188	90,193	(5)
Postage	3,500	3,100	4,090	(990)
Telephone	10,800	9,000	7,961	1,039
Water and sewer	3,300	4,200	4,183	17
Garbage	4,350	4,700	4,663	37
Printing/advertising	1,500	800	761	39
Non-professional service	1,000	1,150	1,150	-
Security/fire alarm	2,500	2,000	1,983	17
Custodial service	15,800	19,550	19,550	-
Electricity	25,000	24,500	24,331	169
Vehicle gasoline	23,000	23,500	23,228	272
Supplies	25,000	26,200	26,107	93
Textbooks	25,000	28,510	28,502	8
Furniture, equipment under \$750	5,000	2,750	959	1,791
Capitalized fixtures and equipment	-	-	1,680	(1,680)
Computer software under \$750	4,500	1,850	1,836	14
Dues and fees	2,500	2,000	1,979	21
Other personal services	8,000	15,500	15,370	130
Total expenditures	1,222,737	1,203,623	1,200,922	2,701
Net change in fund balance	(35,597)	(49,626)	(47,322)	2,304
Fund balance at July 1, 2011	79,273	79,273	79,273	-
Fund balance at June 30, 2012	\$ 43,676	\$ 29,647	\$ 31,951	\$ 2,304

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, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Charter school capital outlay	<u>\$ 76,000</u>	<u>\$ 76,600</u>	<u>\$ 76,595</u>	<u>\$ (5)</u>
Expenditures				
Facility lease	<u>76,000</u>	<u>76,600</u>	<u>76,595</u>	<u>5</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at July 1, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 2012	<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, 2012**

**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, 2012, 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.

**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 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, 2012, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

*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.

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, 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*.

This report is intended solely for the information and use of the School's management, Board of Directors, others within the entity, the School Board of Lake County, FL, the State of Florida Office of the Auditor General, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 21, 2012  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## 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, 2012, and have issued our report thereon dated September 21, 2012.

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 Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated September 21, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of the 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 recommendations in the preceding audit report.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of provisions of 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 more than inconsequential. In connection with our audit, we did not have any such findings.



- Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)6., Rules of the Auditor General, requires the name or official title of the school. The official title of the school is *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.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(11)., Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the School's management, Board of Directors, others within the entity, the School Board of Lake County, FL, the State of Florida Office of the Auditor General, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 21, 2012  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## **FINDINGS, RECOMMENDATIONS, AND OTHER MATTERS**

For the prior year ended June 30, 2011, there are no management recommendations.

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