

ANNUAL FINANCIAL STATEMENTS
FOR THE
INNOVATIONS MIDDLE CHARTER SCHOOL
(A Component Unit of the Orange County Public Schools)
ORLANDO, FLORIDA
FISCAL YEAR ENDED JUNE 30, 2011



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INDEPENDENT AUDITOR'S REPORT

Honorable President and
Members of the Board of Directors
Innovations Middle Charter School
Orlando, Florida

We have audited the accompanying basic financial statements of Innovations Middle Charter School, a component unit of the Orange County Public Schools, located in Orlando, Florida, as of and for the fiscal year ended June 30, 2011, as listed in the financial section of the table of content. These basic financial statements are the responsibility of the management of Innovations Middle Charter School. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis of our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Innovations Middle Charter School, as of June 30, 2011, and the results of its activities and operations for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2011, on our consideration of the Innovations Middle Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Innovations Middle Charter School, taken as a whole. The accompanying comparative information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Integrity in Numbers

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information; however, we did not audit the information and we express no opinion on it.

September 30, 2011
Orlando, FL

LOT

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the Innovations Middle Charter School, Florida, we offer readers of the IMS financial statements this narrative overview and analysis of the financial activities of the IMS for the fiscal year ended June 30, 2011. Please read it in conjunction with the accompanying transmittal letter beginning on page 24, and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Ø The IMS total net assets at June 30, 2011 were \$326 thousand and were restricted for the use of IMS activities.
- Ø The total operating revenues from all sources were \$1.247 million.
- Ø The total cost of all IMS programs was approximately \$890 thousand.
- Ø At the end of the current fiscal year, unreserved fund balance, restricted especially for IMS expenditures, was \$326 thousands.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The three components of the financial statements are:

- 1) Government -wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of IMS as a whole.
- 2) Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the IMS operations in more detail than the government -wide statements by providing information about IMS.
- 3) Notes to the financial statements.

Innovations Middle Charter School (IMS) opened its doors in August 2010 and serviced over 225 students during the 2010-2011 school years. Innovations Middle Charter School was designed by Orlando educators for the success of middle school students by offering individualized student learning plans and creative, flexible options for students to succeed.

Innovations Middle Charter School Vision, Mission and Core Values:

Innovations Middle Charter School is a small, community based charter school that focuses on the success of each and every student. The school is located at 2768 North Hiawassee Rd, Orlando (corner of Silver Star and Hiawassee) in a large corner building of the shopping mall where there was once an Orange County Public Library.

Vision:

The Vision at Innovations Middle Charter School is to be the premier educational model for middle school student success.

Mission:

The mission at Innovations Middle Charter School is to foster a community of student-learners, who are focused on developing the necessary inner resources, individual responsibility and personal commitment for academic, social and personal change.

Core Values:

- ***Appreciation:*** Each student is welcomed and wanted; each student is special and unique.
- ***Communication:*** All students and their parents have a one-on-one meeting with the administration to get to know each other and determine the students overall general academic needs. These needs are documented in student learning plans.
- ***Relationships:*** All new students are assigned a teacher advisor to address concerns or issues.
- ***High Expectations:*** Clear student expectations, norms and behaviors are exhibited school wide by all students, staff and teachers.
- ***Differentiation:*** A commitment is made to ensure that all students learn, no question is too small, and material is presented in different ways using differentiated instructional methods
- ***Commitment:*** Faculty is commitment to a small school culture where everyone learns.
- ***Community Support:*** Family and community involvement supports student and school successes.
- ***Righteousness:*** School wide modeling of core academic, social and behavioral expectations is consistent and ongoing.

The educational program is designed for students' in grades 6-8 who have been unsuccessful, in danger of failing, have failed, been retained or are over-aged in middle school. The school is perfect for the student who wants to get back to academics and away from the pressure of the larger schools.

REPORTING OF IMS AS A WHOLE**Statement of Net Assets and the Statement of Activities (Government -wide)**

A frequently asked question regarding the IMS financial position is whether the year's activities contributed positively to the overall financial well being. The Statement of Net Assets and the Statement of Activities report information about the IMS as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the

accounting methodology used by most private-sector companies. All of the current year's revenues and expenditures are taken into account, regardless of when cash is received or paid.

These two statements report IMS net assets and changes therein. Net assets, the difference between assets and liabilities, are one way to measure the IMS financial position. Over time, increases or decreases in net assets are an indicator of whether the financial position is improving or deteriorating.

The Statement of Net Assets and the Statement of Activities present information about the school activities. All of IMS basic services are considered to be governmental activities for children development. Conversely, state passed through local school district funding and grant finance a significant portion of the activities.

REPORTING THE IMS'S FUND

Fund Financial Statements

The fund financial statements provide detailed information about the recording and reporting of various activities undertaken by the IMS and mandated by state law. The IMS fund focuses on how resources flow in and out, with the balances remaining at year-end that are available for spending. This fund uses the modified accrual accounting methodology, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the IMS general operations and the basic services it provides. Also, fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the IMS expenditures. The basic fund financial statements can be found on pages 13 and 14.

GOVERNMENT -WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the IMS, assets exceeded liabilities by almost \$326 thousand dollars at the close of the fiscal year ending June 30, 2011. IMS investment in fixed assets totaled \$78 thousand and there are no outstanding long-term liabilities and, as a result, the net assets of the government-wide Statement of Net Assets and the governmental fund Balance Sheet were similar in amounts. Therefore, it was not necessary to reconciliation both statements. The net assets of IMS also consisted of available cash after meeting its ongoing obligations. IMS has a contractual agreement with an outside company to provide leased employee services. Consequently, wages and salaries along with fringe benefits are not a component of IMS activities.

**Innovations Middle Charter School
Net Assets**

	Governmental Activities <u>2011</u>
<u>Assets</u>	
Current and Other Assets	<u>\$394,737</u>
Total Assets	\$394,737
<u>Liabilities</u>	
Other Liabilities	<u>38,464</u>
Total Liabilities	38,464
<u>Net Assets</u>	
Unrestricted	<u>356,273</u>
Total Net Assets	<u>\$356,273</u>

Governmental Activities

The activities performed by the IMS decreased the current year's net assets by \$890 thousand dollars.

**Innovations Middle Charter School
Changes in Net Assets**

	Governmental Activities <u>2011</u>
<u>Revenues</u>	
Program Revenues:	
State Passed Through Local School District	\$1,159,143
Grant Passed Through Local School District	87,395
General Revenues:	
Interest Earnings	<u>82</u>
Total Revenues	1,246,620
Program Expenditures	
All Programs	<u>890,347</u>
Total Expenditures	<u>890,347</u>
Increase in Net Assets	356,273
Net Assets – June 30, 2011	<u>\$356,273</u>

FINANCIAL ANALYSIS OF THE IMS'S FUNDS

As noted earlier, the IMS uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The focus of the IMS governmental fund is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the IMS financial requirements. The unreserved fund balance at the end of June 30, 2011 of \$326 thousand dollars showed a strong favorable measurement of the IMS's net resources available for spending in the future, at the end of the fiscal year. At the

moment, the IMS uses one governmental fund for all of its functions and activities. It does not utilize either an Enterprise or a Fiduciary Fund.

Budgetary Highlights

The IMS made no adjustments to its original budget. Thus the original and final budgets were similar in amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets are used in the performance of the IMS functions. The composition of capital assets includes equipment, buildings, land and park facilities etc.; thus, IMS investment in capital assets consists of leasehold improvements, furniture and equipment, and scientific learning software.

Debt

Currently, the IMS has no long-term liabilities. All debt incurred by the IMS are operational and are classified as current liabilities.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

Management believes that the next year's budget will truly reflect the operational activities of the organization with favorable variances. The economic conditions are grim; however, management foresees intense focus in educating our children using charter schools.

CONTACTING THE IMS FINANCIAL MANAGEMENT TEAM

This financial report is designed to provide a general overview of the IMS finances and to show the IMS accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the management of IMS, 2768 North Hiawasse Road, Orlando, Florida 32808.

BASIC FINANCIAL STATEMENTS

INNOVATIONS MIDDLE CHARTER SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 306,655	\$ -	\$ 306,655
Receivables, Net of Allowances for Uncollectable Amounts			
Prepaid Deposits	<u>10,120</u>	-	<u>10,120</u>
Total Current Assets	<u>316,775</u>	-	<u>316,775</u>
Noncurrent Assets			
Capital Assets			
Capital Assets, net of Accum. Depreciation	<u>77,962</u>	-	<u>77,962</u>
Total Noncurrent Assets	<u>77,962</u>	-	<u>77,962</u>
Total Assets	<u>394,737</u>	-	<u>394,737</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	30,964	-	30,964
Accrued Expense	<u>7,500</u>	-	<u>7,500</u>
Total Current Liabilities	<u>38,464</u>	-	<u>38,464</u>
Noncurrent Liabilities			
Total Noncurrent Liabilities	-	-	-
Total Liabilities	<u>38,464</u>	-	<u>38,464</u>
NET ASSETS			
Restricted for:			
Investment in Capital Assets	77,962	-	77,962
Unrestricted	<u>278,311</u>	-	<u>278,311</u>
Total Net Assets	<u>\$ 356,273</u>	<u>\$ -</u>	<u>\$ 356,273</u>

**INNOVATIONS MIDDLE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Function / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 890,347	\$ -	\$ -	\$ -	\$ (890,347)	\$ -	\$ (890,347)
Business-type Activities:							
Total Business-type Activities	-	-	-	-	-	-	-
Total Primary Government	<u>\$ 890,347</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(890,347)</u>	<u>-</u>	<u>(890,347)</u>
Component Units:							
General Revenues:							
State Passed Through Local School District					1,159,143	-	1,159,143
Grant Passed Through Local School District					87,395	-	87,395
Interest Earnings					<u>82</u>	<u>-</u>	<u>82</u>
Total General Revenues, Special Items, and Transfers					<u>1,246,620</u>	<u>-</u>	<u>1,246,620</u>
Change in Net Assets					<u>356,273</u>	<u>-</u>	<u>356,273</u>
Net Assets - Ending					<u>\$ 356,273</u>	<u>\$ -</u>	<u>\$ 356,273</u>

**INNOVATIONS MIDDLE CHARTER SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 384,617
Receivables, Net of Allowances for Uncollectable Amounts	
Prepaid Deposits	10,120
Total Assets	\$ 394,737
 LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts Payable	\$ 30,964
Accrued Expenses	7,500
Total Liabilities	38,464
 FUND BALANCES	
Reserved for:	
Prepaid Deposits	10,120
Unreserved, reported in:	
General Fund	346,153
Total Fund Balances	356,273
Total Liabilities and Fund Balances	\$ 394,737

**INNOVATIONS MIDDLE CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Operating Grant	Capital Outlay	General Total
REVENUES				
State Passed Through Local School District	\$ 1,159,143	\$ -	\$ -	\$ 1,159,143
State Grant Through Local School District	-	87,395	-	87,395
Interest Earnings	<u>82</u>	<u>-</u>	<u>-</u>	<u>82</u>
Total Revenues	<u>1,159,225</u>	<u>87,395</u>	<u>-</u>	<u>1,246,620</u>
EXPENDITURES				
Current				
Basic Instruction	376,323	64,815	-	441,138
Exceptional Instruction	66,410	11,438	-	77,848
Instructional and Curriculum Services	2,450	4,510	-	6,960
Board of Directors	850	-	-	850
School Administration	260,391	6,632	-	267,023
Food Service	11,634	-	-	6,053
Community Service	12,513	-	-	12,513
Capital Outlay	-	-	77,962	77,962
Debt Service				
Total Expenditures	<u>730,571</u>	<u>87,395</u>	<u>77,962</u>	<u>890,347</u>
Excess (deficiency) of Revenues Over Expenditures	<u>428,654</u>	<u>-</u>	<u>77,962</u>	<u>356,273</u>
OTHER FINANCING SOURCES (USES)				
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>428,654</u>	<u>-</u>	<u>77,962</u>	<u>356,273</u>
Fund Balances - Ending	<u>\$ 428,654</u>	<u>\$ -</u>	<u>\$ 77,962</u>	<u>\$ 356,273</u>

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the Innovations Middle Charter School, all of which conform to generally accepted accounting principles as applicable to governmental units.

Entity

As required by generally accepted accounting principles, these financial statements represent all the funds of the Innovations Middle Charter School, a component unit of the Orange County Public School.

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Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded using the full accrual basis of accounting .

The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 government fund:

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

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, and Net Assets or Equity

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Investments

Cash deposits are stated at cost, which approximates fair value. Investments are stated at fair value in accordance with Government Accounting Standards Board Statement Number 31.

Revenue Sources

Revenues for current operations are received primarily from the State of Florida passed through the District, then to IMS, 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 (FLDOE) for funding through the Florida Education Finance Program.

Funding for the School is adjusted during the year to reflect the revised calculations by FLDOE 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 received 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 such eligible expenditures are incurred. Revenues received from these federal awards are recognized to the extent that eligible expenditures have been incurred.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the IMS as a whole. Capital assets are defined by IMS as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. The cost of normal repairs and maintenance that do not add to the value of the assets or materially extend its useful life, 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 (years)
Leasehold Improvements	15
Furniture and Equipment	7
Computer Software	3

Personnel Services

IMS uses an independent charter school human resources contractor for employee services. For purposes of accounting, IMS has no employees in fiscal year ending June 30, 2011. Operating, human resource, and payroll services were performed by ACH of America and the workers at IMS are ACH of America contracted employees. All employees of IMS are cleared through the Orange County Public Schools and have OCPS personnel numbers.

NOTE B: COMMITMENTS AND CONTINGENCIES

Litigation

IMS has no legal actions and or claims arising out of the normal course of business.

NOTE C: CAPITAL ASSETS

The following is a summary of changes in the school's capital assets as reported:

	Balance
	6/30/11
Capital Assets Depreciated:	\$ 40,724
Leasehold Improvements	22,130
Furniture and Equipment	18,831
Computer Software	46,900
Total Assets	87,861
Less Accumulated Depreciation	
Leasehold Improvements	737
Furniture and Equipment	1,345
Computer Software	7,817
Total Accumulated Depreciation	9,899
Total Capital Assets, Net	\$ 77,962

Depreciation expense is reflected in the statement of activities. For the year ended June 30, 2011, depreciation expense was \$9,899.

REQUIRED SUPPLEMENTAL INFORMATION

**INNOVATIONS MIDDLE CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over / (Under)
	Original	Final		
REVENUES				
State Passed Through Local School District	\$ 1,132,589	\$ 1,132,589	\$ 1,159,143	\$ 26,554
Other Sources of Revenue	121,000	121,000	-	(121,000)
Grant Passed Through Local School District	200,000	200,000	87,395	112,605
Interest Earnings	-	-	82	82
Total Revenues	<u>1,453,589</u>	<u>1,453,589</u>	<u>1,246,620</u>	<u>(206,969)</u>
EXPENDITURES				
Current				
Basic Instruction	452,598	452,598	441,138	(11,460)
Exceptional Instruction	79,870	79,870	77,848	(2,022)
Instructional and Curriculum Services	13,500	13,500	6,960	(6,540)
Board of Directors	151,000	151,000	850	(150,150)
School Administration	585,580	585,580	267,023	(318,557)
Food Service	106,000	106,000	6,053	(99,947)
Community Service	21,500	21,500	12,513	(8,987)
Capital Outlays	-	-	77,962	77,962
Total Expenditures	<u>1,410,048</u>	<u>1,410,048</u>	<u>890,347</u>	<u>(519,701)</u>
Excess (deficiency) of Revenues Over Expenditures	<u>43,541</u>	<u>43,541</u>	<u>356,273</u>	<u>312,732</u>
OTHER FINANCING SOURCES (USES)				
Total Other Financing Sources and Uses	-	-	-	-
Net Change in Fund Balance	<u>43,541</u>	<u>43,541</u>	<u>356,273</u>	<u>312,732</u>
Fund Balances - Ending	<u>\$ 43,541</u>	<u>\$ 43,541</u>	<u>\$ 356,273</u>	<u>\$ 312,732</u>

**INNOVATIONS EDUCATIONAL SERVICES
SCHEDULE OF FUNCTIONAL EXPENDITURES**

For the year ended June 30, 2011

	Basic Instruction	Exceptional Instruction	Guidance Services	Instructional and Curriculum Svcs	Board of Directors	School Admin	Food Services	Community Services	Capital Outlay	Total
Continuing Education	\$332	\$59		\$6,960						\$7,350
Training	573	101			850					1,524
Uniform Expense	372	66								438
Electricity						22,238				22,238
Supplies Other	1,622	286								1,908
Office Supplies						11,579				11,579
School Supplies	16,744	2,955					5,581			25,279
Comp and Internet	60,454	10,668						7,500		78,622
Other Expenses	284	50								334
Bank Service Charges						542				542
Wire Transfer Fee						20				20
Bus Lic and Permits						996				996
Depreciation						9,899				9,899
Processing Fees						56,154				56,154
Dues and Fees	289	51								340
Adv and Promo						6,498				6,498
Gnl Liability Ins						889				889
Licenses & Fees						280				280
Outside Services	4,968	877								5,845
Professional Fees	1,758	310				7,500				9,569
Consulting Fees	6,929	1,223								8,152
Rent Expense						35,339				35,339
Repairs and Maint						8,240				8,240
School Incentives	1,511	267								1,778
Security Expense						1,296				1,296
Storage Expense						99				99
Tele Exp	3,945	696								4,641
Transportation								5,013		5,013
Tavel Oth	889	157								1,046
Travel Auto	889	157								1,046
Travel Meals	1,406	248								1,654
Utilities						356				356
Administrators						78,214				78,214
Aide	56,515	9,973								66,488
Classroom Teachers	268,974	47,466								316,440
Other Support Personnel						26,884				26,884
Substitute Teacher	12,686	2,239								14,924
Software									46,900	46,900
Furniture and Equipment									18,831	18,831
LeaseHold Improvements									22,130	22,130
	\$441,138	\$77,848	\$0	\$6,960	\$850	\$267,023	\$5,581	\$12,513	\$87,861	\$899,773

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Honorable President and
Members of the Board of Directors
Innovations Middle Charter School
Orlando, Florida

We have audited the financial statements of Innovations Middle Charter School, a component unit of the Orange County Public School, Florida, as of and for the year ended June 30, 2011. 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.

Compliance

As part of obtaining reasonable assurance about whether Innovations Middle Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are included in the accompanying schedule of auditor's findings.

Internal Control over Financial Reporting

In planning and performing our audit, we have considered Innovations Middle Charter School's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Innovations Middle Charter School ability to record, process, summarize

and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of the auditor's findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board, management, the School District of Orange County, 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 30, 2011
Orlando, Florida



OTHER SUPPLEMENTAL INFORMATION

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Management Letter

The Honorable President and
Board Members of
Innovations Middle Charter School
Orlando, Florida

We have audited the financial statements of the Innovations Middle Charter School, Florida, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 30, 2011.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Compliance and Internal Control over financial reporting, Independent Auditor's Report on Compliance and Internal Control over Compliance Applicable to State Project, and Schedule of Findings and Questioned Costs. Disclosures in that report, which are dated September 30, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General, which govern the conduct of local government entity audits performed in the State of Florida and require that certain items be addressed in this letter.

- ü 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. See the attached Management Recommendations schedule.

- ü Section 10.854(1)(e)4, Rules of the Auditor General, requires that we address violations of provisions of contracts of grant agreements, or abuse, 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.

- ü Section 10854(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) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

- ü 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 Innovations Middle Charter School, which is included in the financial operations of Orange County Public Schools, Orlando, Florida and operates in accordance with Section 1002.33, Florida Statutes.
- ü 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 determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- ü Pursuant to Sections 10.854(1)(e)7.a. and 10.855(10), Rules of the Auditor General, we applied financial 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 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 management, the School District of Orange County, and the Florida Auditor General and other regulatory agencies of the federal and state governments, and is not intended to be, and should not be, used by anyone other than these specified parties.

September 30, 2011
Orlando, Florida

The logo consists of the letters 'LOT' in a stylized, bold, red font with a slight shadow effect.

Innovations Middle Charter School
Schedule of Management Recommendations
For Fiscal Year Ended June 30, 2011

Internal Controls:

2011- 1:

Criteria: Organizational Structure

Condition: During the review of the organizational structure, we noted that the size of the organization's accounting and administrative staff precludes certain internal controls.

Effect: Less than optimum segregation of duties

Recommendation : This situation dictates that management remains involve in the financial affairs of the organization to provide oversight and independent review of functions.

Management Response: Innovations Middle Charter School is managed by the non-compensated governing board members, and not a paid management company. As a result of not hiring a management company, the school has a significant surplus that can go toward the direct education of the students and not to an outside for-profit management company. Due to growing pains, the board had difficulty securing a highly qualified principal to serve the unique needs of our student population. Due to the charter having difficult securing an effective school leader, many of the duties that would have been segregated were in fact managed by the governing board and the president who functioned as the business manager via the consensus of the board.

2011 - 2

Criteria: Signing and dating of the Minutes

Condition: Upon examination of the minutes which document approval of the Board execution of functions and responsibilities, some of the minutes were not signed and or dated.

Effect: To indicate approval of decisions made by the Board.

Recommendation s: The management of the organization must sign and date the minutes showing indication of review.

Management Response: The Board always reviews the previous minutes to ensure their accuracy and they reflect the actions taken at all meetings, yet they must use due diligence to make sure the minutes are dated and signed.

General Ledger Review

2011 - 3

Criteria: Accounting Manual

Condition: The organization does not have a formal accounting manual documenting the procedures for fiscal operations. A written accounting manual is necessary to ensure that transactions are treated in a standardized manner and that proper internal controls exist in the accounting system. Should employees have a question as to the proper handling of a transaction in accordance with management's authorization, such information is not available in writing. Employees can consult with the ACH company for all employee/paid issues.

Effects: Consequences of the failure to adhere to the condition:

- 1) Potential misappropriation of funds.
- 2) Incorrect coding of transactions.
- 3) Lack of reporting compliance .

Recommendation: Management should develop and implement operating guidelines demonstrating how each fiscal activity is prepared including a description of each fiscal procedure, such as invoice paying, maintenance of accounts, and expense allocation methodology.

Management Response: Employees are contracted through ACH of America which serves as our Human Resource Contractor. The governing board has established policies, limitations and allowances for invoices, purchases and allocations. All authorizations for expenditures must be pre-approved.

Financial Statements

2011 - 4

Criteria: Monthly closing

Condition: Monthly closing is a consistent and relevant process and it should incorporate both financial and variance analyses.

Effect: Under or over reporting of income.

Recommendations:

- a) Financial statements must be analyzed and timely reports must be presented to the Board with variance explanations.

- b) All appropriate accounts (bank, accrual, payables etc.) must be prepared, reconciled, and approved with signatures.
- c) The Financial reports must be approved with signatures and date by the Board monthly.

Management Response: Monthly financials are prepared by the school's accountant and are verified by the board's president. Moving forward the board will review the financial statements which include but are not limited to original budget, revised budget and any variances. Additionally, the board will insure that the scope of services of the school's accountant will include reconciliation of bank accounts, accruals and payables on a monthly basis.

2011 - 5

Criteria: Fixed Assets

Condition: Fixed assets are tangible assets of a relatively permanent nature that are used in the operation of the business. It is necessary to identify each physical item with a unique identification number for tracking purposes.

Effect: Fixed assets could become untraceable and increase loss of the organization resources.

Recommendation : All fixed assets must be tagged with a unique number.

Management Response: All items over \$1,000 from the grant have been tagged with an unique number; items over \$1,000 are rare and include only the moveable walls which are inventory. All computers, equipment, and laptops are tagged and inventory via labels and spreadsheets (all under \$300 cost each).

Significant Audit Findings

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following significant misstatement detected as a result of our audit procedures were corrected by management:

- 1) Accumulated depreciation amounts for current years were neither posted to the ledger monthly nor annually.
- 2) Depreciation expenses for current years were neither posted to the ledger monthly nor annually.

Difficulty Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and conducting the audit.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that there were no such disagreements during the course of our audit.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management; however, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We wish to thank the President and her staff for their support and assistance during the audit. We were cordially welcome and our requests were satisfied within a reasonable time period.

This information is intended solely for the use of the Audit Committee, the Board of Directors, and management of Innovations Middle Charter School, the School District of Orange County, the Florida Auditor General and other regulatory agencies of federal and state government and is not intended to be and should not be used by anyone other than those specified parties.

Profile of the Innovations Middle Charter School

Innovations Middle Charter School (IMS) opened its doors in August 2010 and serviced over 225 students during the 2010-2011 school years. Innovations Middle Charter School was designed by Orlando educators for the success of middle school students by offering individualized student learning plans and creative, flexible options for students to succeed.

Innovations Middle Charter School Founding and Governing Board 2010-2011

President: Dr. Patricia A. Lightner has been an educator for over 12 years. She has been a school administrator, in both primary and secondary schools. She is passionate about doing whatever it takes to make a difference in the lives of children. She has successfully set up charter schools with a focus on building relationships, which encourage students to make good choices. In her quest to create successful programs for at risk students, Dr. Lightner designed the flexible daily schedule, fast track and credit recovery programs for students who have fallen through the academic cracks. Her motto is "all children can and will succeed" and "the past is the past, now is your future".

Vice President: Dr. Tamala Wright has over 12 years' experience working with at risk students. Her management, oversight, and school improvement initiatives have paved the way for students to be successful in elementary, middle, and high school programs, Dr. Wright worked with at risk middle school students for Orange County Public Schools as a Student Success Resource Teacher, and currently is a Science teacher in an OCPS Middle School.

Secretary: Keith Allen has over 15 years' experience working with at risk students in Orlando, FL and specializes in middle school success programs. He has served the students in Orlando in many academic leadership roles and is an experienced math teacher. Presently, Mr. Allen is an administrator at an alternative school in Orlando, Florida.

Board Member: Warren Jones has worked with at risk youth as a mentor, trainer, coach, teacher, instructor and administrator. A longtime resident of Orlando, Mr. Jones' compassion for students and families in Orlando are at the forefront of his mission. Currently, Mr. Jones is an administrator at an alternative school in Orlando, Florida.

Board Member: Dr. Darryl Allen is an Accounting Professor at University of Central Florida, and prior to that had a one year visiting appointment at Georgetown University teaching accounting at the graduate level. Dr. Allen has a PhD from George Washington University and an MBA from Marymount University, Virginia. Prior to becoming a college professor, Dr. Allen has over 28 years of experience working in the corporate environment to include 25 years with Mobile Oil from account supervisor, financial analyst, Controller, and Land Developer. Dr. Allen has great financial experience in project development, earning analysis and project valuation. He is also a member of The American Institute of Certified Public Accountants in Virginia since 1987.

Innovations Middle Charter School Vision, Mission and Core Values:

Innovations Middle Charter School is a small, community based charter school that focuses on the success of each and every student. The school is located at 2768 North Hiawasse Rd, Orlando (corner of Silver Star and Hiawasse) in a large corner building of the shopping mall where there was once an Orange County Public Library.

Vision:

The Vision at Innovations Middle Charter School is to be the premier educational model for middle school student success.

Mission:

The mission at Innovations Middle Charter School is to foster a community of student-learners, who are focused on developing the necessary inner resources, individual responsibility and personal commitment for academic, social and personal change.

Core Values:

- ***Appreciation:*** Each student is welcomed and wanted; each student is special and unique.
- ***Communication:*** All students and their parents have a one -on- one meeting with the administration to get to know each other and determine the students overall general academic needs. These needs are documented in student learning plans.
- ***Relationships:*** All new students are assigned a teacher advisor to address concerns or issues.
- ***High Expectations:*** Clear student expectations, norms and behaviors are exhibited school wide by all students, staff and teachers.
- ***Differentiation:*** A commitment is made to ensure that all students learn, no question is too small, and material is presented in different ways using differentiated instructional methods
- ***Commitment:*** Faculty is commitment to a small school culture where everyone learns.
- ***Community Support:*** Family and community involvement supports student and school successes.
- ***Righteousness:*** School wide modeling of core academic, social and behavioral expectations is consistent and ongoing.

The educational program is designed for students' in grades 6-8 who have been unsuccessful, in danger of failing, have failed, been retained or are over- aged in middle school. The school is perfect for the student who wants to get back to academics and away from the pressure of the larger schools.

For the upcoming 2011-2012 school year, Innovations added an advance track for students who are at or above grade level in order to encourage advanced learning with access to Florida's online curriculum. No matter what the student's academic level, Innovations design a plan that challenges the student toward higher level learning and academic success.

As the focus of the school is on the individual student needs, success for the student must include academics, social and life skills, coping and interpersonal skills, organizational, communication and study skills.

The Innovations curriculum and program provides students with training in general, standard based middle school curriculum, while improving academic performance, self-esteem, social and civic responsibility - all aspects needed to be successful in high school and beyond. The school promotes an atmosphere that promotes individualized and flexible plans for all students. We develop plans and explore ways to help every child achieve success. IMS recognizes that not all students learn the same way, or at the same pace.

Innovations Middle School operates under the philosophy that "all children can learn". Children are most motivated to learn and learn best when their individuality is recognized and encouraged, when they feel safe and protected, and when they feel connected to a larger collective community. Innovations Middle School strives to create a small school community in which all students are valued, parents are encouraged to participate and everyone is accepted for whom they are and what they want to be.

The school is dedicated to educating a community of students where all can be successful. Innovations Middle School assist students in discovering and realizing their dreams, provides high quality learning opportunities to promote personal responsibility and inspire a thirst for knowledge and a yearning for success!

The student learning plan addresses the student's unique academic and social needs as deemed necessary to succeed in middle school. The learning plan addresses the child's academics as they pertain to promotion requirements and grade level expectations. Non-academic issues, personal or social concerns that may have contributed to his/her educational misfortunes are also be reviewed and addressed in the plan. Factors such as grade level reading appropriateness, math skills and abilities, age level vs. grade level, retention status, credit recovery and individual learning preferences are addressed in the learning plans.

The goal is to design a learning plan that is timely, relevant and meaningful to the at risk or frustrated student who has not been successful in the standard public school arena, while preparing that same student with the necessary academic, social and personal skills to be successful in high school.

At Innovations Middle School, students are presented with common sense, academic learning plans that help them succeed in middle school. It is important to create plans for students to be successful in middle school and prepared for high school.

The flexible 10 period day at Innovations Middle School works with the student and the family to create a school bell schedule designed for the student or family individual needs. The flexible period schedule can be worked out from 7:30 am to 3:30 pm. The 10 period day assists students with the opportunity to make up failed or missed coursework, take additional courses for academic readiness, grade level correction and/or grade level promotion. All students must take a baseline reading, math and writing baseline tests (designed by Innovations educators) to determine basic subject area academic skills. These tests assist us with customizing the student learning plans with respect to grade level expectations and academic levels.

Innovations Middle Charter School is excited about the upcoming 2011-2012 school year with Title One status and has a school improvement plan that targets student success.