

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(With Independent Auditors' Reports Thereon)

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

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## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor, City Commission and City Manager  
City of Pembroke Pines/Florida State University Charter Schools  
Pembroke Pines, Florida

We have audited the accompanying financial statements of the City of Pembroke Pines/Florida State University Charter Schools (the Schools) (a Special Revenue Fund of the City) as of and for the year ended June 30, 2005, which collectively comprise the Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1.a, the financial statements of the City of Pembroke Pines/Florida State University Charter Schools (the Schools) (a Special Revenue Fund of the City), are intended to present the financial position, and the changes in its financial position of only the transactions of the Schools as chartered by the Florida State University. They do not purport to, and they do not, present fairly the financial position of the City of Pembroke Pines as a whole and does not include the City's Schools as chartered by Broward County School District as of June 30, 2005, and the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Pembroke Pines/Florida State University Charter Schools as of June 30, 2005, and the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor, City Commission and City Manager  
City of Pembroke Pines/Florida State University Charter Schools  
Pembroke Pines, Florida  
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In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005 on our consideration of the Schools' internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 25 through 26, respectively, are not a required part of the basic financial statements but are 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 express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Schools' basic financial statements. The schedule of capital assets used in the operation of the Schools as listed in the table of contents are presented for purposes of additional analysis and are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fort Lauderdale, Florida  
September 9, 2005

*Watson Rice LLP*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Pembroke Pines/Florida State University ("FSU") Charter Schools, we offer readers of the Charter Schools' financial statements this narrative overview and analysis of the financial activities of the Charter Schools for the twelve-month period ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Charter Schools' financial statements, which follow this section. The City of Pembroke Pines/FSU Charter Schools provide us with a unique opportunity to show the various efforts and accomplishments that have been achieved in our second year of operation.

The City of Pembroke Pines/FSU Charter Elementary School was established and built in 2003, initially providing educational opportunities to 600 Elementary school students. This partnership between the City of Pembroke Pines and the FSU was the first of its kind in Broward County. The Charter was granted to establish a Developmental Research Laboratory School, with the primary goal being to enhance the educational instruction and research of reading, and other disciplines at the primary and secondary school levels. The City also owns and operates six other Charter Schools within its corporate limits, which are sponsored by the Broward County School Board.

For the school year ended June 30, 2005, 100 fifth grade students who had graduated from the FSU Charter Elementary School in 2004 were sent to the Charter Middle School Central campus as sixth graders. Although these students were physically located on this campus, they were counted as part of the FTE's of the FSU Charter Schools, since these schools were sponsored under a separate charter. Both the revenues and expenditures of the FSU Charter Schools were affected as a result of the increased student population. For the 2006 school year, the decision was taken by the Schools' administration to integrate these students as part of the Broward County sponsored Charter School system instead of having them continue as FSU Charter Schools students ( see also Note 10. – Subsequent Event).

This is the second year that the Schools will be reporting on their financial statements, thus comparative information is available. The government-wide format using the GASB Statement No. 34 financial reporting and the fund-based financial reporting are not viewed as being in conflict with each other; however, they are not comparable.

### **Financial Highlights**

- The liabilities of the FSU Charter Schools as reported in the government-wide financial statements exceeded their assets at the close of the current fiscal year by (\$268,519) (deficit) as compared with (\$285,220) (deficit) from last year.
- As of the close of the current fiscal year, the FSU Charter Schools governmental funds financial statements had an excess of revenues over expenses of \$11,577, but overall reported combined ending fund balance (deficit) of (\$251,146).

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Pembroke Pines/FSU Charter Schools' basic financial statements. The Charter Schools' basic financial statements consist of five components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to basic financial statements, 4) required supplementary information, and 5) supplementary auditors' reports.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City of Pembroke Pines/FSU Charter Schools' finances, in a manner similar to a private-sector business.

The statement of net assets presents information on the City of Pembroke Pines/FSU Charter Schools' 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 City of Pembroke Pines/FSU Charter Schools are improving or deteriorating.

The statement of activities presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will eventually result in cash flows in future fiscal periods.

The Charter Schools' government-wide financial statements distinguish the functions of the City of Pembroke Pines/FSU Charter Schools as being principally supported by local revenues (FTE dollars through the Florida State University) (governmental activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The City of Pembroke Pines/FSU Charter Schools have no business-type activities and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 9-10 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Pembroke Pines/FSU Charter Schools, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related requirements. The Fund used by the Charter Schools is considered to be a governmental fund type.

**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 for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The City of Pembroke Pines/FSU Charter Schools maintain only one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The City of Pembroke Pines/FSU Charter Schools adopt an annual appropriated budget. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The governmental fund financial statements can be found on pages 11-13 of this report.

**Notes to basic financial statements.** The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial

statements. The notes to basic financial statements can be found on pages 14-24 of this report.

**Required Supplementary Information.** The information in this section is required by the Governmental Accounting Standards Board (GASB). It consists of the budgetary comparison schedules and the Management's Discussion and Analysis (MD&A).

**Supplementary Auditors' Reports.** This section includes the following:

- Report of Independent Certified Public Accountants on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- Management Letter in Accordance with the Rules of the Auditor General of the State of Florida.

**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 City of Pembroke Pines/FSU Charter Schools, liabilities exceeded assets by \$268,519 as of June 30, 2005.

Investments in capital assets consisting of machinery and equipment, net of accumulated depreciation amount to \$41,973. The City of Pembroke Pines/FSU Charter Schools do not have any related debt outstanding that was used to acquire these assets. These assets are not available for future spending.

#### CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Current assets	\$ 334,255	\$ 239,021
Capital assets, net of depreciation	<u>41,973</u>	<u>22,595</u>
Total assets	<u>376,228</u>	<u>261,616</u>
Current liabilities	585,401	501,744
Noncurrent liabilities	<u>59,346</u>	<u>45,092</u>
Total liabilities	<u>644,747</u>	<u>546,836</u>
Net assets:		
Invested in capital assets	41,973	22,595
Unrestricted (deficit)	<u>(310,492)</u>	<u>(307,815)</u>
Total net assets (deficit)	<u>\$ (268,519)</u>	<u>\$ (285,220)</u>

Current assets increased by \$95,234 (40%) during the year. This increase was related to an increase of \$92,382 in due from other governments, an increase of \$4,856 in other miscellaneous receivables, and a decrease of \$2,004 in commodities inventory. The net increase in capital assets of \$19,378 is related to depreciation expense of \$5,668 required by GASB Statement No. 34 and the purchase of computer equipment and Interactive Metronome® systems amounting to \$25,046.



Current liabilities increased by \$83,657 (17%) during the year. This increase was related to a decrease of \$4,299 in accounts payables, an increase of \$7,619 in accrued liabilities, an increase of \$72,542 in due to other funds, and an increase of \$7,795 in deposits. Noncurrent liabilities increased by \$14,254 (32%) during the year, which is related to compensated absences. Invested capital assets increased by \$19,378 (86%) and unrestricted net assets (deficit) increased slightly by \$2,677.

#### CONDENSED STATEMENT OF CHANGES IN NET ASSETS

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues:		
Charges for services	\$ 333,762	\$ 560,318
Operating grants and contributions	247,906	227,842
General revenues:		
FTE non-specific revenues	4,565,624	3,015,308
Rental income	<u>43,650</u>	<u>25,961</u>
Total revenues	<u>5,190,942</u>	<u>3,829,429</u>
Expenses:		
Instructional services	2,331,994	1,847,142
Instructional support services	123,553	76,805
Student transportation services	223,080	186,344
School administration	747,135	641,250
Rent	676,458	556,509
Operation of school	949,418	700,079
Child care supervision	114,942	106,520
Interest expense	<u>7,661</u>	<u>-</u>
Total expenses	<u>5,174,241</u>	<u>4,114,649</u>
Change in net assets	16,701	(285,220)
Net assets (deficit), beginning	<u>(285,220)</u>	<u>-</u>
Net assets (deficit), ending	<u>\$ (268,519)</u>	<u>\$ (285,220)</u>

**Governmental activities.** The City of Pembroke Pines/FSU Charter Schools' total net assets (deficit) at the end of the fiscal year amount to (\$268,519) versus (\$285,220) for fiscal year 2004, an increase in net assets of \$16,701. The total cost of all governmental activities this year was \$5,174,241. Key elements of these changes in net assets are as follows:

The Charter Schools' total revenues increased by \$1,361,513 (36%) due to an increase of the 100 Middle School students and the "2 Mil" revenues. Charges for services decreased by \$226,556 (40%) as a result of a reclassification of revenues previously reported in this category. Operating grants and contributions increased by \$20,064 (9%) during the year as a result of the Start-Up grant and commodities. FTE non-specific revenues increased by \$1,550,316 (51%) during the year as a result of the 100 Middle School students and the "2 Mil" revenues. Rental income increased by \$17,689 (68%) during the year as a result of new City facility rentals.



Total expenditures increased by \$1,059,592 (26%) during the year. This increase was mainly attributable to the 100 Middle School students. Instructional services increased by \$484,852 (26%), the majority of this increase related to an increase in staff for the additional 100 middle school students. Instructional support services increased by \$46,748 (61%), student transportation services increased by \$36,736 (20%), and school administration increased by \$105,885 (17%), all as a result of the increase in student population. Rent increased by \$119,949 (22%), this increase is attributable to the scheduled principal and interest payment on the construction funds borrowed. Operation of school increased by \$249,339 (36%) as a result of the increase in student population and the increasing cost of building maintenance and electricity. Child care supervision and interest expense increased by \$8,422 (8%) and \$7,661 (100%) respectively.

**Financial analysis of the City of Pembroke Pines/FSU Charter Schools' fund.** As noted earlier, the City of Pembroke Pines/FSU Charter Schools use fund accounting to ensure and demonstrate compliance with finance-related legal requirements and segregation for particular purposes.

**Governmental fund.** The focus of the City of Pembroke Pines/FSU Charter Schools' governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Charter Schools' financing requirements. In particular, an unreserved, undesignated fund balance may serve as a useful measure of the Charter Schools' net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the City of Pembroke Pines/FSU Charter Schools' governmental fund reported an ending fund balance (deficit) of (\$251,146). The fund balance consists of a reserve for subsequent years' expenditures of \$1,194, a reserve for commodities inventory of \$1,792, and an unreserved deficit of (\$254,132).

### **Budgetary Highlights**

For the fiscal year ended June 30, 2005, the City of Pembroke Pines/FSU Charter Schools had estimated revenues and appropriations of \$5,569,176 and \$5,243,202, respectively. Over the course of the year, the Charter Schools recommended several revisions to budgeted revenues and appropriations. These amendments fall into the following categories:

- Amendments related to grants and new programs.
- Amendments to revise estimates for state and local revenues based on the latest information on student attendance.
- Amendments during the year for unexpected occurrences.

***The City of Pembroke Pines/FSU Charter Schools made the following significant amendments to budget:*** Several amendments were made to the budgeted revenues in the amount of \$755,826. An amendment was made to the Start-Up grant in the amount of \$8,000. An amendment was made to commodities in the amount of \$5,550. An amendment was made to science lab materials in the amount of \$2,228. An amendment was made to Governor's A+ funds in the amount of \$61,450. An amendment was made to ESE guaranteed allocation in the amount of \$61,669. Amendments were made to allocation FSU Middle in the amount of \$600,540.

Amendments were made to the budgeted expenditures in the amount of \$889,414. Amendments were made to K-3 Basic in the amount of \$33,201. Amendments were made to 4-

8 Basic in the amount of \$312,870. Amendments were made to Exceptional Student Education (ESE) program in the amount of \$44,359. Amendments were made to substitute teachers in the amount of \$10,223. Amendments were made to guidance services in the amount of \$15,742. Amendments were made to instructional media services in the amount of \$19,273. Amendments were made to school administration in the amount of \$109,881. Amendments were made to facilities acquisition and construction in the amount of \$118,839. Amendments were made to student transportation services in the amount of \$42,282. Amendments were made to operation of school in the amount of \$159,037. Amendments were made to child care supervision in the amount of (\$3,157). Amendments were made to capital outlay in the amount of \$25,966. Amendments were made to instructional staff training in the amount of \$898.

After appropriations were amended, as described above, actual revenues were \$378,234 below final budget amounts; and actual expenditures were \$63,837 below final budget amounts.

### **Capital Assets**

The City of Pembroke Pines/FSU Charter Schools' investment in capital assets for its governmental activities as of June 30, 2005 amounts to \$41,973 (net of accumulated depreciation). This investment in capital assets consists of machinery and equipment. During the year the additions to capital assets were attributable to the purchase of computer equipment amounting to approximately \$13,000 and \$12,000 for the purchase of Interactive Metronome ® systems which are designed to assist the Exceptional Student Education (ESE) program.

	<u>CAPITAL ASSETS (Net of Depreciation)</u>	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Machinery and equipment	<u>\$ 41,973</u>	<u>\$ 22,595</u>
Total capital assets	<u>\$ 41,973</u>	<u>\$ 22,595</u>

Additional information on the Charter Schools' capital assets can be found on pages 27-29 of this report.

### **Economic Factors and Next Year's Budget and Rates**

- ◆ The Charter School will no longer receive Start-Up grant funds. These funds are only available for the first two years of operation.
- ◆ The Charter School will only house 610 Elementary School students for the 2006 school year.

### **Requests for Information**

This financial report is designed to provide the reader with a general overview of the Charter Schools' finances, as well as demonstrate accountability for funds the Charter Schools receive. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Office of the Controller, Pembroke Pines/FSU Charter Schools, 13975 Pembroke Road, Pembroke Pines, Florida 33027.

**CITY OF PEMBROKE PINES**  
**Florida State University**  
**CHARTER SCHOOLS**

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental <u>Activities</u>
<u>ASSETS</u>	
Pooled cash	\$ 400
Due from other governments	325,367
Other miscellaneous receivables	6,696
Commodities inventory	1,792
Capital assets being depreciated, net	<u>41,973</u>
Total assets	<u>376,228</u>
<u>LIABILITIES</u>	
Accrued liabilities	50,616
Due to other funds	523,018
Deposits	11,767
Noncurrent liabilities:	
Due within one year	47,650
Due in more than one year	<u>11,696</u>
Total liabilities	<u>644,747</u>
<u>NET ASSETS</u>	
Invested in capital assets	41,973
Unrestricted (deficit)	<u>(310,492)</u>
Total net assets (deficit)	<u><u>\$ (268,519)</u></u>

See notes to basic financial statements.

**City of Pembroke Pines**  
**Florida State University**  
**CHARTER SCHOOLS**  
STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
				<u>Total Governmental Activities</u>
Governmental activities:				
Instructional services	\$2,331,994	\$ -	\$ 179,052	\$ (2,152,942)
Instructional support services	123,553	-	28,948	(94,605)
Student transportation services	223,080	55,155	-	(167,925)
School administration	747,135	-	-	(747,135)
Operation of school	949,418	115,040	39,906	(794,472)
Rent	676,458	-	-	(676,458)
Child care supervision	114,942	163,567	-	48,625
Interest expense	7,661	-	-	(7,661)
Total Charter Schools	<u>\$5,174,241</u>	<u>\$333,762</u>	<u>\$ 247,906</u>	<u>(4,592,573)</u>
General revenues:				
FTE non-specific revenues				4,565,624
Rental income				<u>43,650</u>
Total general revenues				<u>4,609,274</u>
Change in net assets				16,701
Net assets (deficit) - beginning				<u>(285,220)</u>
Net assets (deficit) - ending				<u>\$ (268,519)</u>

See notes to basic financial statements.

**City of Pembroke Pines**  
**Florida State University**  
**CHARTER SCHOOLS**

BALANCE SHEET  
GOVERNMENTAL FUND

JUNE 30, 2005

ASSETS

Pooled cash	\$ 400
Due from other governments	325,367
Other miscellaneous receivables	6,696
Commodities inventory	<u>1,792</u>
Total assets	<u>\$ 334,255</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accrued liabilities	50,616
Due to other funds	523,018
Deposits	<u>11,767</u>
Total liabilities	<u>585,401</u>

Fund balances:

Reserved for encumbrances	1,194
Reserved for commodities inventory	1,792
Unreserved (deficit)	<u>(254,132)</u>
Total fund balance (deficit)	(251,146)

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	41,973
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund.	<u>(59,346)</u>
Net assets (deficit) of governmental activities	<u><u>\$ (268,519)</u></u>

See notes to basic financial statements.

**City of Pembroke Pines**  
**Florida State University**  
**CHARTER SCHOOLS**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND

FISCAL YEAR ENDED JUNE 30, 2005

Revenues:	
Local	\$ 4,943,036
Federal grants	<u>247,906</u>
Total revenues	<u>5,190,942</u>
Expenditures:	
Current:	
K-3 basic	1,155,698
4-8 basic	867,425
Guidance services	86,997
Exceptional student program	273,839
Substitute teachers	35,032
School administration	732,881
Student transportation services	223,080
Operation of school	943,750
Facilities acquisition and construction	676,458
Instructional media service	35,658
Instructional staff training	898
Child care supervision	114,942
Interest expense	7,661
Capital outlay	<u>25,046</u>
Total expenditures	<u>5,179,365</u>
Excess of revenues over expenditures	<u>11,577</u>
Net change in fund balance	11,577
Fund balance (deficit), beginning	<u>(262,723)</u>
Fund balance (deficit), ending	<u><u>\$ (251,146)</u></u>

See notes to basic financial statements.

**City of Pembroke Pines  
Florida State University  
CHARTER SCHOOLS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental fund (page 12)	\$ 11,577
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The governmental fund reports capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

The detail of the difference is as follows:

Capital outlay	\$ 25,046	
Depreciation expense	<u>(5,668)</u>	
Net adjustment		19,378

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

The detail of the difference is as follows:

Compensated absences	<u>(14,254)</u>	
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Change in net assets of governmental activities (page 10)	<u>\$ 16,701</u>
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**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

On February 3, 2003, the City of Pembroke Pines (“the City”) and Florida State University (“FSU”) signed an agreement (“Charter Agreement”) for the establishment of a Developmental Research Charter Laboratory School (“the School”) to train teachers and to promote learning and research through collaboration. The Charter Agreement is for a 15-year term from July 1, 2003 through June 30, 2018 with provisions for extensions in increments of additional fifteen years. The Pembroke Pines/FSU Charter Schools Elementary School Campus was constructed with funds from the Public Improvement Revenue Bonds, Series 2001. The principal and interest on this bond relating to the construction are payable from rental payments received from the Pembroke Pines/FSU Charter Schools.

The Charter Agreement is constructed pursuant to Florida Statutes 1002.32 and 1002.33. FSU has an existing Charter School in Leon County, Florida, and the Charter Agreement calls for the Pembroke Pines/FSU Charter Schools to serve as a model for the FSU Professional Development School program and be a part of FSU Charter Schools’ existing School District. The Pembroke Pines/FSU Charter Schools Elementary School opened for the 2003-2004 school year with 600 students in grades K-5 in the new facility plus 13 Exceptional Student Education (“ESE”) students attending the City of Pembroke Pines Charter School Central Campus. The Charter Agreement calls for continued expansion of the program to encompass grades K-12 and expansion of the ESE program to provide for a total of 50 students.

The Governing Body of the Schools is comprised of six voting members, consisting of the City of Pembroke Pines Mayor, Vice-Mayor and three Commissioners plus the FSU President or his or her designee. The Governing Body shall establish a School Advisory Board or Boards, pursuant to the requirements of Section 1002.32(8) Florida Statutes. The City operates the Schools as a public employer, and the Schools’ employees are considered public employees. The City will indemnify FSU from any claims, suits or actions. The Schools are accounted for as a special revenue fund of the City.

Non-renewal of the Charter Agreement requires 365 days notice prior to the expiration date by either the City or FSU to the other party. Any real or personal property paid for by the City will revert to the City in the event of termination of the Charter Agreement.

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**b. Government-Wide and Fund Financial Statements**

The Schools' government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Schools. For the most part, the effect of interfund activity has been removed from these statements. Full-time equivalent ("FTE") dollars and intergovernmental revenues support *governmental activities*.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. FTE dollars and other items not properly included among program revenues are reported instead as *general revenues*.

The major individual governmental fund is reported as separate column in the fund financial statements. The Schools' 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.

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The Schools' government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Schools' 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. For this purpose, the Schools consider revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting, except for compensated absences.

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**  
(Continued)

FTE dollars, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the Schools receive cash.

The Schools report the following major fund:

**Charter Elementary School** – The Elementary School, located at the Pembroke Shores site serves 600 student stations, and an additional 10 students in the ESE Program.

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

**d. Assets, Liabilities and Net Assets**

***1. Pooled Cash and Cash Equivalents***

The Schools consider all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents. The Schools maintain their cash and cash equivalents in pooled accounts managed by the City. Within the City's pooled control accounts, separate accounting is maintained for each fund. Pooled cash and cash equivalents include investment in the Local Government Surplus Funds Trust Fund administered by the State Board of Administration. The Charter Schools had no cash equivalents as of June 30, 2005.

***2. Receivables***

All receivables are considered to be collectible; therefore, no allowance for uncollectibles is recorded.

***3. Capital Assets***

Capital assets, which include machinery and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Schools as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. *Capital Assets* (Continued)**

historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs 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 Schools are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Machinery and equipment	3-10

**4. *Compensated Absences***

The Charter Schools' regular full-time employees are given three sick leave days and accrue one day per month up to ten days per year. Sick leave may be carried over into the following school year. Once an employee reaches thirty days, they will bank those days for future use and will be compensated for any sick leave days over thirty at the end of each school year at their current rate of pay. Each full time, all year round employee is entitled to ten working days of vacation. Teachers and non-instructional employees that are not all year round employees do not accrue vacation. Eligible employees may carryover any unused vacation days for a maximum of ten days. An employee will not be paid for earned vacation leave in lieu of taking such leave unless recommended by the Principal and approved by the City Manager. Employees resigning voluntarily or who retire and give at least ten working days advance written notice of their intention to resign will receive up to a maximum of ten days of vacation leave credit earned as of the date of resignation or at retirement at the current base rate of pay. The Charter Schools have recorded the amount of accrued sick and vacation benefits as of and for the year ended June 30, 2005 in the government-wide financial statements.

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**d. Assets, Liabilities and Net Assets (Continued)**

**5. *Long-Term Obligations***

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities. Long-term debt, which is the obligation of the City and which is not included in the Schools' financial statements, is described below:

In 2001, the City issued Public Improvement Revenue Bonds, Series 2001 for \$19,600,000 of which approximately \$7,100,000 was used to finance the construction of the City of Pembroke Pines/Florida State University Charter Elementary School.

The Elementary School remits a yearly rental fee to the City for the use of the facilities that were constructed by the City (see Note 5 – Operating Leases).

**6. *Equity Classifications***

**Government-wide Financial Statements**

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets – Consists of capital assets, net of accumulated depreciation that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provision or enabling legislation. The School has no restricted assets as of June 30, 2005.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets”.

**Fund Financial Statements**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

**NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**d. Assets, Liabilities and Net Assets (Continued)**

**7. Revenue Sources**

Revenues for current operations are received primarily from Florida State University pursuant to the funding provisions included in the Schools' Charter. In accordance with the funding provisions of the Charter Agreement and Section 228.056(13), Florida Statutes, the Schools report the full-time equivalent (FTE) students and related data to Florida State University. Under the provisions of Section 236.081, Florida Statutes, the University reports the number of full-time equivalent students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the Schools is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual full-time equivalent students reported by the Schools during the designated full-time equivalent student survey periods.

**8. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may differ from actual results.

**NOTE 2. INVESTMENTS**

The Schools invest in the Local Government Surplus Funds Trust Fund (LGSF) administered by the State Board of Administration. Chapter 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration, governs the LGSF. These rules provide guidance and establish the general operating procedures for the administration of the LGSF. Additionally, the Office of the Florida Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The LGSF is not a registrant of the Securities and Exchange Commission (SEC); however, the fund has adopted operating procedures consistent with the requirements for a 2a-7 Fund and is reported at the fair value of its position in the pool, which is the same as its value of the pool shares.

As of June 30, 2005, the Schools had no funds invested with the State Board of Administration.

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

**NOTE 3. REVENUE SOURCES**

Florida State University:

Florida education finance program	\$ 2,842,291
Public education capital outlay (PECO)	324,625
Instructional materials	84,105
Class size reduction	297,811
Discretionary lottery funds	44,810
Public school technology	15,499
Teacher training allocation	11,176
Teacher's lead program	544
Library media materials	5,995
Science lab materials	1,638
Discretionary equalization	34,736
Safe schools	41,530
District school taxes	445,000
Governor's A+ funds	61,450
ESE guaranteed allocation	230,989
Supplemental academic instruction	123,425
Total Florida State University	<u>4,565,624</u>

Other:

After school education program	163,567
Food sales	115,006
In-house transportation	55,155
Rental revenue	43,650
Commodities contribution	34
Total other	<u>377,412</u>
Total local	<u><u>\$ 4,943,036</u></u>

Federal grants:

Start-up	\$ 208,000
School lunch reimbursement - Free/Reduced	28,548
School breakfast reimbursement - Non-Severe Need	3,926
Commodities -Donated Food	7,432
Total Federal grants	<u><u>\$ 247,906</u></u>



**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

**NOTE 4. CAPITAL ASSETS**

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Capital assets, being depreciated:				
Machinery and equipment	\$ 26,056	\$ 25,046	\$ -	\$ 51,102
Total capital assets being depreciated	<u>26,056</u>	<u>25,046</u>	<u>-</u>	<u>51,102</u>
Less accumulated depreciation for:				
Machinery and equipment	(3,461)	(5,668)	-	(9,129)
Total accumulated depreciation	<u>(3,461)</u>	<u>(5,668)</u>	<u>-</u>	<u>(9,129)</u>
Total capital assets being depreciated, net	<u>\$ 22,595</u>	<u>\$ 19,378</u>	<u>\$ -</u>	<u>\$ 41,973</u>

Depreciation expense was charged to functions/programs of the Schools as follows:

Governmental activities:

Machinery and equipment	<u>\$ 5,668</u>
-------------------------	-----------------

**NOTE 5. OPERATING LEASES**

***Schools' Facility Lease***

The Charter Elementary School leases its campus from the City for an annual rental fee based on the debt service requirement of the debt issued by the City to construct the Charter Elementary School (see Note 1d.5). For the fiscal year ended June 30, 2005, rent expense was approximately \$554,000.

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

**NOTE 5. OPERATING LEASES (Continued)**

*Schools' Facility Lease* (Continued)

The approximate minimum future rentals to be paid to the City are as follows:

Fiscal year ending June 30:

2006	\$ 559,000
2007	560,000
2008	560,000
2009	559,000
2010	559,000
2011-2015	2,796,000
2016-2020	2,795,000
2021-2023	<u>1,259,000</u>
Total approximate minimum future rentals	<u>\$ 9,647,000</u>

**NOTE 6. CHANGES IN LONG-TERM LIABILITIES**

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within One Year
Compensated absences	<u>\$ 45,092</u>	<u>\$ 78,740</u>	<u>\$ (64,486)</u>	<u>\$ 59,346</u>	<u>\$ 47,650</u>

**NOTE 7. RISK MANAGEMENT**

The Charter Agreement requires the City to maintain the same insurance levels and coverage for the FSU Schools as it currently maintains for the other City's Charter Schools, as required by the City's Charters with the Broward County District School Board.

Health and hospitalization, workers' compensation and life insurance coverage are provided through the City of Pembroke Pines, and the City, in turn, charges the Schools for this coverage. The Schools maintain their insurance as an additional named insured on the aggregate insurance policies purchased for all of the City's Charter Schools for general liability, automotive liability, basic and catastrophic student accident, and property and flood coverage through purchased commercial insurance with minimum deductibles for each line of

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

**NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)**

**NOTE 7. RISK MANAGEMENT (Continued)**

coverage. Settled claims resulting from these risks have not exceeded commercial coverage during the current year.

**NOTE 8. COMMITMENTS AND CONTINGENCIES**

***Commitment***

The agreement with FSU requires that as the sponsor of the Schools, and for its research and evaluation responsibilities, the City will pay FSU the fixed annual amount of \$250,000 as a University Oversight and Research Fee.

***Contingency***

Amounts received or receivable from grantor agencies are subject to future audit and compliance testing, which may result in adjustments by Federal or State grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Schools expect such amounts, if any, to be immaterial.

**NOTE 9. PENSION PLAN**

***Charter Schools and Early Development Centers Employees***

Effective July 1, 2000, the City established a defined contribution plan for employees of the Charter Schools and Early Development Centers (the Charter Schools' Plan) created in accordance with Internal Revenue Service Code 401(a) and Ordinance 1345 and amended by Ordinance 1401 dated April 3, 2002. If a participant separates from service and subsequently becomes employed with another unit of a state or local government, then the participant may rollover the benefits into his or her new employer's pension plan providing said plan permits rollovers.

At June 30, 2005, there were 34 FSU Plan members. Effective January 1, 2002, the Charter Schools' Plan members may make voluntary after-tax contributions of up to twenty-five percent (25%) of compensation during the fiscal year. The City's required contribution is five percent (5%) of the Plan member's gross salary. For the year ended June 30, 2005, the

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

**NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)**

**NOTE 9. PENSION PLAN (Continued)**

City contributed \$83,877 to the Charter Schools' Plan. Provisions of the Charter Schools' Plan may be amended by the City Commission. The Charter Schools' Plan is held in a trust for the exclusive benefit of the participants and their beneficiaries. Consequently, the City has no fiduciary responsibility, and therefore, the net assets of the Charter Schools' Plan are not included in the City's financial statements.

**NOTE 10. SUBSEQUENT EVENT**

During the fiscal year ended June 30, 2005, one hundred (100) FSU Elementary fifth graders attended the City of Pembroke Pines Charter West Campus Middle School as sixth graders. Although these 100 FSU students were physically located at the Charter Middle School campus, they were not counted as part of the FTE equivalents for the Charter Middle School, as the FSU Charter Schools were established under a separate Charter. Therefore, for the fiscal year 2005 the FTE revenues and expenditures of the Broward County Charter Middle School was based on 500 students as opposed to 600 students, and the FSU Charter School FTE revenues and expenditures were based on 710 students versus 610 students. It was subsequently decided by the Charter Schools' administration that this would not be continued for the 2006 school year; instead the 100 FSU students will become part of the Broward County FTE equivalents. This would restore the full number of Broward County and FSU Charter Schools' FTE equivalents to 600 and 610, respectively.

**City of Pembroke Pines**  
**Florida State University**  
**CHARTER SCHOOLS**

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
CHARTER SCHOOLS

FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Local	\$ 4,583,650	\$ 5,318,931	\$ 4,943,036	\$ (375,895)
Federal grants	<u>229,700</u>	<u>250,245</u>	<u>247,906</u>	<u>(2,339)</u>
Total revenues	<u>4,813,350</u>	<u>5,569,176</u>	<u>5,190,942</u>	<u>(378,234)</u>
Expenditures:				
Current:				
K-3 basic	1,127,954	1,161,155	1,155,698	5,457
4-8 basic	558,333	871,203	867,425	3,778
Guidance services	71,487	87,229	86,997	232
Exceptional student program	272,564	316,923	273,839	43,084
Substitute teachers	25,300	35,523	35,032	491
School administration	635,464	745,345	732,881	12,464
Student transportation services	183,340	225,622	223,080	2,542
Operation of school	783,946	942,983	943,750	(767)
Facilities acquisition and construction	558,626	677,465	676,458	1,007
Instructional media service	16,823	36,096	35,658	438
Instructional staff training	-	898	898	-
Child care supervision	119,951	116,794	114,942	1,852
Interest expense	-	-	7,661	(7,661)
Capital outlay	<u>-</u>	<u>25,966</u>	<u>25,046</u>	<u>920</u>
Total expenditures	<u>4,353,788</u>	<u>5,243,202</u>	<u>5,179,365</u>	<u>63,837</u>
Excess of revenues over expenditures	459,562	325,974	11,577	(314,397)
Fund balance (deficit), beginning	<u>(262,723)</u>	<u>(262,723)</u>	<u>(262,723)</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ 196,839</u>	<u>\$ 63,251</u>	<u>\$ (251,146)</u>	<u>\$ (314,397)</u>

See note to budgetary comparison schedule.

**CITY OF PEMBROKE PINES  
FLORIDA STATE UNIVERSITY  
CHARTER SCHOOLS**

**NOTES TO BUDGETARY COMPARISON SCHEDULE**

**FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 1. BUDGETS AND BUDGETARY ACCOUNTING**

1. The annual budget is legally adopted for the City of Pembroke Pines/Florida State University Charter Schools which is a governmental fund. The governmental fund budget is maintained on the modified accrual basis of accounting, consistent with accounting principles generally accepted in the United States of America (US GAAP), except for encumbrances, which are purchase orders and contracts issued for goods or services not received at year-end.

For budgetary purposes, significant encumbrances outstanding at year end are reappropriated in the subsequent year's budget. Unencumbered appropriations lapse at year-end.

2. The City of Pembroke Pines/Florida State University Charter Schools' budget is approved via resolution in a public hearing conducted by the City Commission. The adopted budgets are integrated into the accounting software system effective July 1<sup>st</sup>. The budgets established the legal authority to incur expenditures up to the appropriated amount for each line item.
3. Section 30.30(F) of the Code of Ordinances requires a majority affirmative vote of the quorum to adopt the budgets, which prior to July 1<sup>st</sup>, is legally enacted through passage of a resolution. Section 6.06 of the City Charter provides that no officer, department or agency may legally expend or contract to expend the amounts in excess of the amounts appropriated for any department, within an individual fund. Therefore, the legal level of control is at the department level.
4. The adopted budget may be amended as follows:
  - a. The City Manager or his designee and the Principal approve line item adjustments within a school site or school function.
  - b. The City Commission approves budget adjustments that transfer monies from fund to fund or interdepartmentally.
  - c. The City Commission may approve supplemental appropriations of revenues and expenditures. If this is done, the adoption of an amended budget resolution is required.
5. The final budget includes supplemental appropriations, which have the effect of adjusting the original adopted budgets. There were supplemental appropriations of approximately \$134,000 during the fiscal year ended June 30, 2005.

**City of Pembroke Pines**  
**Florida State University**  
**CHARTER SCHOOLS**

**CAPITAL ASSETS USED IN THE OPERATION OF THE GOVERNMENTAL FUND**  
**SCHEDULE BY SOURCE**

JUNE 30, 2005

Governmental fund capital assets:

Machinery and equipment	<u>\$ 51,102</u>
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Investments in governmental fund capital assets by source:

Charter Elementary School	<u>\$ 51,102</u>
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**City of Pembroke Pines**  
**Florida State University**  
**CHARTER SCHOOLS**

CAPITAL ASSETS USED IN THE OPERATION OF THE GOVERNMENTAL FUND  
SCHEDULE BY FUNCTION AND ACTIVITY

JUNE 30, 2005

<u>Function and Activity</u>	<u>Machinery and Equipment</u>
Education:	
Charter Elementary School	\$ 51,102
Total governmental fund capital assets	<u>\$ 51,102</u>

**City of Pembroke Pines**  
**Florida State University**  
**CHARTER SCHOOLS**

CAPITAL ASSETS USED IN THE OPERATION OF THE GOVERNMENTAL FUND  
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY  
FISCAL YEAR ENDED JUNE 30, 2005

<u>Function and Activity</u>	Governmental			Governmental	
	Fund Capital Assets June 30, 2004	Additions	Transfers	Fund Capital Assets June 30, 2005	
Education:					
Charter Elementary School	<u>\$ 26,056</u>	<u>\$ 25,046</u>	<u>\$ -</u>	<u>\$ 51,102</u>	



**Watson Rice LLP**

Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' 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 Mayor, City Commission and City Manager  
City of Pembroke Pines/Florida State University Charter Schools  
Pembroke Pines, Florida

We have audited the financial statements of the City of Pembroke Pines/Florida State University Charter Schools (the Schools) (a Special Revenue Fund of the City) as of and for the year ended June 30, 2005, which collectively comprise the Schools' basic financial statements as listed in the table of contents and have issued our report thereon dated September 9, 2005. 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 the Schools' 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Mayor, City Commission and City Manager  
City of Pembroke Pines/Florida State University Charter Schools  
Pembroke Pines, Florida  
Page 2

This report is intended solely for the information and use of the Honorable Mayor, City Commission, management, Auditor General of the State of Florida and Florida State University and is not intended to be and should not be used by anyone other than those specified parties.

Fort Lauderdale, Florida  
September 9, 2005

*Watson Rice LHR*



**Watson Rice LLP**

Certified Public Accountants and Consultants

**MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE  
AUDITOR GENERAL OF THE STATE OF FLORIDA**

Honorable Mayor, City Commission and City Manager  
City of Pembroke Pines/Florida State University Charter Schools  
Pembroke Pines, Florida

We have audited the financial statements of the City of Pembroke Pines/Florida State University Charter Schools (the Schools) (a Special Revenue Fund of the City) as of and for the year ended June 30, 2005, which collectively comprise the Schools' basic financial statements as listed in the table of contents and have issued our report thereon dated September 9, 2005. 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. We have also issued our Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated September 9, 2005, should be considered in conjunction with this Management Letter.

In connection with our audit of the financial statements of the Schools as of and for the year ended June 30, 2005, we report the following in accordance with Chapter 10.850 Rules of the Auditor General, *Charter Schools Audits* which requires that this report specifically address but not be limited to the matters outlined in Rule 10.854 (1)(d):

1. There were no recommendations made in the preceding annual financial audit.
2. There are no recommendations to improve the Schools' present financial management, accounting procedures and internal controls.
3. During the course of our audit, nothing came to our attention that caused us to believe that the Schools:
  - a. Were in violation of any laws, rules, regulations or contractual provisions or abuse.
  - b. Made any improper expenditures.
  - c. Had deficiencies in internal control



Honorable Mayor, City Commission and City Manager  
City of Pembroke Pines/Florida State University Charter Schools  
Pembroke Pines, Florida  
Page 2

4. The City of Pembroke Pines was incorporated under House Bill No. 1413 on June 20, 1960. The City of Pembroke Pines/Florida State University Charter Schools are operated by the City. The City of Pembroke Pines/Florida State University Charter Elementary School was created by motion of the City Commission on February 3, 2003.

This report is intended solely for the information and use of the Honorable Mayor, City Commission, management, Auditor General of the State of Florida and Florida State University and is not intended to be and should not be used by anyone other than those specified parties.

Fort Lauderdale, Florida  
September 9, 2005

*Watson Rice LHP*