

## **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.