

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

On August 20, 1997, June 17, 1998 and August 19, 1998, the City Commission approved the creation of the City of Pembroke Pines Charter Elementary School, consisting of three campuses; the City of Pembroke Pines Charter Middle School, consisting of two campuses; and the City of Pembroke Pines Charter High School, consisting of one campus, respectively. The three schools will be referred to collectively as the Schools in these special purpose financial statements. The City of Pembroke Pines, Florida (the City) is a municipal corporation operating charter schools organized pursuant to Section 1002.33 of the Florida Statutes. The City of Pembroke Pines Charter Elementary Schools' first school year commenced in August 1998; the City of Pembroke Pines Charter Middle Schools' first school year commenced in July 1999 and the City of Pembroke Pines Charter High School's first school year commenced in July 2000. The governing body of the Schools is the City Commission comprising five voting members which consist of the City of Pembroke Pines Mayor, Vice Mayor, and three Commissioners. The Pembroke Pines City Manager also serves as the Superintendent of the Charter Schools.

The Schools operate under a charter of the sponsoring school district, the Broward County School Board (the District). The Elementary Schools' charter was approved by the City Commission on August 18, 1998 and is effective until June 30, 2014. The Middle Schools' charter was approved by the City Commission on June 2, 1999 and is effective until June 30, 2014. The High School's charter was approved by the City Commission on February 16, 2000 and is effective until June 30, 2015. All three charters may be renewed in increments of five (5) years by mutual written agreement between the Schools and the District. At the end of the term of the charters, the District may choose not to renew the charters under grounds specified in the charter in which case the District is required to notify the Schools in writing at least 90 days prior to the charter's expiration. Pursuant to Section 1002.33, Florida Statutes, the charter school contract provides that in the event the Schools are dissolved or terminated, any unencumbered funds and all school property purchased with public funds automatically revert to the Broward County School Board. During the term of the charter, the District may also terminate the charter if good cause is shown. The Schools are accounted for as special revenue funds of the City. The financial statements contained herein present only the operations of the Schools, which are special revenue funds, and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Government-Wide and Fund Financial Statements

On February 1, 2003 the City entered into a Charter Agreement with Florida State University (FSU) to create a seventh Charter School – the City of Pembroke Pines/Florida State University Charter Elementary School. This Charter School opened for the 2003-2004 School year, and has a current enrollment of 679 students for the 2012-13 school year. Its financial information is not included herein, as it is separately chartered with Florida State University and issues its own special purpose 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*.

Major individual governmental funds are reported as separate columns in the fund financial statements. The Schools' special purpose 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

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

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 funds:

Charter Elementary Schools – The Elementary Schools consist of an East, West and Central campus, serving 1,928 student stations for the 2012-13 school year.

Charter Middle Schools – The Middle Schools consist of a West and Central campus, serving 1,312 student stations for the 2012-13 school year.

Charter High School – The Charter High School, located at the Academic Village site, serving 1,715 student stations for the 2012-13 school year.

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.

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets

1. Deposits & Investments

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.

2. Receivables

All receivables are considered to be collectible. No allowance for uncollectibles is recorded.

3. Inventories

Inventories consist of expendable food commodities and are valued on the first-in, first-out basis. United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the School's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. This inventory is accounted for under the consumption method, and as such, is recorded as an expenditure when used rather than purchased.

4. Capital Assets

Capital assets, which include improvements other than buildings and 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 \$1,000, except for computers which are capitalized regardless of cost. Such assets are recorded at historical cost or estimated 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:

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets (Continued)

4. *Capital Assets* (Continued)

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Improvements other than buildings | 5-50 |
| Machinery and equipment | 3-10 |

In accordance with Florida Statutes, all property and improvements, furnishings and equipment purchased with public funds will automatically revert to full ownership by the Broward County School Board upon the non-renewal or termination of the charter agreement.

5. *Compensated Absences*

The City's 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 liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, the Schools report only the compensated absence liability due and payable at June 30th and paid from expendable available financial resources.

6. *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 reported in the City's financial statements, is not included in the School's financial statements, and is described below:

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets (Continued)

6. *Long-Term Obligations* (Continued)

The City borrowed \$10,000,000 from a bank in December 1997 of which approximately \$8,000,000 was used to finance the acquisition of land and construction of the Elementary Schools. In 1998, the City issued Public Improvement Revenue Bonds, Series 1998 for \$24,055,000 of which approximately \$12,500,000 was used to finance the construction of the Middle School, and the purchase and development of the site for the City's Charter High School. During 1999, the City issued Capital Improvement Revenue Bonds, Series 1999 for \$45,240,000 of which approximately \$31,000,000 was used to finance the construction of the City of Pembroke Pines Charter High School and further expansion of the Schools. During 2001, the City issued Charter School Revenue Bonds, Series 2001A and 2001B for \$31,910,000 and \$20,060,000, respectively, which were used to finance the construction of the City of Pembroke Pines Charter Central Campus and the shared-use facility located at the Academic Village Charter High School Campus.

On December 1, 2006, \$18,935,000 of the Public Improvement Revenue Bonds, Series 1998, and \$10,985,000 of the Public Improvement Revenue Bonds, Series 2001 were advance refunded by the City's \$29,720,000 Public Improvement Revenue Refunding Bonds, Series 2006. Also on December 1, 2006, \$28,100,000 of the Capital Improvement Revenue Bonds, Series 1999 was advance refunded by a portion of the City's \$45,050,000 Capital Improvement Revenue Refunding Bonds, Series 2006.

On March 25, 2008, the City advance refunded the Charter School Revenue Bonds, Series 2001A and 2001B, and constructed thirty-eight (38) additional classrooms for the City of Pembroke Pines Charter Schools and twelve (12) new classrooms for the City of Pembroke Pines/Florida State University Charter Elementary School by issuing the Charter School Revenue Bonds, Series 2008 for \$64,095,000. This was done to comply with the State's Class Size Amendment. The Amendment allows for no more than 18 students in Kindergarten through Third grade classrooms and 22 students in each Fourth through Fifth grade classroom.

The Schools remit a yearly rental fee to the City for the use of the facilities that were constructed by the City (see Note 7 – Operating Leases).

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets (Continued)

7. Equity Classifications

Government-wide Financial Statements

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

- a. Invested in capital assets – Consists of capital assets, net of accumulated depreciation which 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 Schools have no restricted assets as of June 30, 2012.
- 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 fund classifications that comprise a hierarchy based primarily on the extent to which the Schools’ are bound to honor constraints on the specific purposes for which amounts in these funds can be spent. Amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation are classified as restricted fund balances. Amounts that can only be used for specific purposes pursuant to constraints imposed by the City Commission through an ordinance or resolution are classified as committed fund balances. Amounts that are constrained by the intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. Assignments are made by management based on Commission direction. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes.

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets (Continued)

7. *Equity Classifications* (Continued)

Fund balance of the Charter Schools are considered to be assigned for rent payments, as they are special revenue funds of the City. Per GASB 54, all remaining amounts reported in governmental funds that are not classified as nonspendable, and are neither restricted nor committed should be reported as assigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, Schools consider restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Schools consider amounts to have been spent, first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Schools have provided otherwise in its commitment or assignment actions.

8. *Revenue Sources*

Revenues for current operations are received primarily from the Broward County School Board pursuant to the funding provisions included in the Schools' charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the Schools report the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1002.33, Florida Statutes, the District 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.

9. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

(Continued)

NOTE 2. DEPOSITS AND INVESTMENTS

The Schools invest in the Florida Municipal Investment Trust (FMIVT) administered by the Florida League of Cities. The Florida Municipal Investment Trust (FMIVT) was created under the laws of the State of Florida to provide eligible units of local government with an investment vehicle to pool their surplus funds and to reinvest such funds in one or more investment portfolios under the direction and daily supervision of an investment advisor.

The Florida League of Cities serves as the administrator, investment manager and secretary-treasurer of the Trust. The Florida Municipal Investment Trust (FMIVT) is not a registrant with the Securities and Exchange Commission (SEC); however, the funds have adopted operating procedures consistent with the requirements for a 2a-7 Fund. The Charter Schools invest operating funds in the 1-3 Year High Quality Bond Fund.

The Schools pooled cash and cash equivalents, are summarized as follows:

| <u>Description</u> | <u>Carrying Amount</u> |
|--|------------------------|
| FMIVT 1-3 Year High Quality Bond Fund | \$4,416,122 |
| Cash on hand | <u>1,875</u> |
| Total pooled cash and cash equivalents | <u>\$4,417,997</u> |

The Charter Schools' investment objective order of priority is safety of capital, liquidity of funds, and investment income, in that order. Authorized investments of the Charter Schools are subject to limitations prescribed in the City of Pembroke Pines' Investment Policy as adopted per Ordinance 1493, dated September 1, 2004. The average duration of the entire portfolio as a whole may not exceed five (5) years. This calculation excludes maturities of the underlying securities of a repurchase agreement. This calculation also applies to the expected average life of asset-backed securities and mortgage-backed securities (rather than the stated final maturity). No more than 30% of the total investment portfolio shall be placed in securities with an expected duration of more than five (5) years. This calculation excludes maturities of the underlying securities of a repurchase agreement. Authorized Investments per the Investment Policy are as follows:

LIST OF AUTHORIZED INVESTMENTS:

(a) The Local Government Surplus Funds Trust Fund and any other investment plan or investment trust developed by the Florida League of Cities, the Florida Association of Counties, the Florida Association of Court Clerks, or similar state or national associations, approved by the City.

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 2. DEPOSITS & INVESTMENTS (continued)

(b) Negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government or its agencies, including but not limited to, U.S. Government Treasury Securities, and Government National Mortgage Associations (GNMAs).

(c) Non-negotiable interest-bearing time certificates of deposits or savings accounts in state or federal banks, state or federal savings and loan associations as permitted and/or prescribed by Chapter 280 of the Florida Statutes.

(d) Government Sponsored Enterprises including but not limited to Federal Farm Credit Banks, Federal Home Loan Bank or its district banks, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Student Loan Marketing Association.

(e) Prime commercial paper. Commercial Paper having a maturity of 90 days or less shall require one of the following three minimum ratings: A-1, P-1 or F-1, or better as rated by Standard & Poors, Moody's, and/or Fitch Investors Service rating services. Prime commercial paper of U.S. Corporations having a maturity in excess of 90 days shall require two of the three above-mentioned ratings.

(f) Repurchase agreements comprised of only those investment instruments as otherwise authorized herein.

(g) State or local government taxable and tax exempt debt, general obligation and/or revenue bonds rated at least "Aa" by Moody's or "AA" by Standard & Poor's for long-term debt or rated at least MIG-2 by Moody's or SP-2 Standard & Poor's for short-term debt.

(h) Securities or, other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, provided the portfolio meets the City's investment policy.

(i) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. The funds must be in compliance with Title 17, Part 270, Section 2a-7 of the Federal Code of Regulations (Appendix B).

(j) U.S dollar denominated debt obligations of domestic or foreign corporations, or foreign sovereignties issued in the U.S. or in foreign markets having two of the following three minimum ratings: A-, A3, or A-, as rated by Standard and Poor's, and/or Moody's, and/or Fitch Investors Service rating services. However, if such obligations are rated by only one rating service, then such rating shall be at least AA-, Aa3, or AA- by Standard & Poor's, or Moody's or Fitch.

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

(Continued)

NOTE 2. DEPOSITS & INVESTMENTS (continued)

(k) Real estate, so long as the acquisition and sale complies with applicable federal and state laws and regulations in addition to applicable City Charter provisions, if any, and the City Code of Ordinances.

(l) Real Estate Investment Trusts (“REIT”) which are properly registered pursuant to applicable Federal and State laws, provided the (“REIT”) portfolio meets the City's Investment Policy.

(m) Land Trusts or Title Trusts as described in Sections 689.07 or 689.071, Florida Statutes, so long as the Land Trust complies with any applicable Federal and State laws and regulations, applicable City Charter provisions, if any, and the City's Code of Ordinances.

(n) Mortgage-Backed Securities. Securities collateralized by mortgages on residential property or commercial (industrial, office, retail etc.) property (“commercial Mortgage-Backed Securities”). The securities may be issued by a Federal Instrumentality or by a private corporation and may be structured as collateralized mortgage obligations or unstructured pass-through securities.

(o) Asset-Backed Securities. Securities collateralized by pools of assets (credit cards, autos, home equity loans) The securities may be structured or unstructured pass-through securities.

Interest Rate Risk: Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair market value of an investment. The School limits its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the investment portfolio. Information about the sensitivity of the fair values of the Schools’ investments to market interest rate fluctuations is provided below.

| <u>Interest Rate Risk Information in Years</u> | <u>Duration</u> | <u>Weighted Average Maturity</u> |
|--|-----------------|--|
| FMIvT 1-3 Year High Quality Bond Fund | 1.52 | 1.63 |

Credit Risk: Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The Schools utilize portfolio diversification and credit quality rating in order to control this risk. The Florida Municipal Investment Trust (FMIvT) 1-3 Year High Quality Bond Fund is rated AAA/V2 by Fitch.

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

(Continued)

NOTE 2. DEPOSITS & INVESTMENTS (continued)

Concentration of Credit Risk: Concentration risk exists when investments are concentrated in one issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investment are excluded from the concentration of credit risk disclosure requirements.

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CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

(Continued)

NOTE 3. REVENUE SOURCES

| | <u>Elementary Schools</u> | <u>Middle Schools</u> | <u>High School</u> | <u>Total</u> |
|--|-------------------------------|---------------------------|------------------------|---------------------|
| Broward County School Board: | | | | |
| Florida education finance program | \$ 7,293,433 | \$4,555,351 | \$ 6,458,685 | \$18,307,469 |
| Class size reduction | 2,497,138 | 1,184,108 | 1,624,148 | 5,305,394 |
| Public education capital outlay (PECO) | 648,905 | 500,538 | 891,866 | 2,041,309 |
| District school taxes | 716,575 | 447,562 | 634,556 | 1,798,693 |
| Supplemental academic instruction | 380,446 | 253,997 | 341,072 | 975,515 |
| Transportation revenue | 147,390 | 212,160 | 404,090 | 763,640 |
| ESE guaranteed allocation | 290,209 | 166,965 | 177,466 | 634,640 |
| Instructional materials | 135,831 | 90,685 | 134,602 | 361,118 |
| Governor's A+ Funds | 134,925 | 87,010 | 119,979 | 341,914 |
| Safe schools program | 44,776 | 29,894 | 40,142 | 114,812 |
| Summer reading program | 3,427 | 7,997 | 25,769 | 37,193 |
| Library media materials | 8,369 | 5,587 | 7,503 | 21,459 |
| Discretionary lottery funds | 6,501 | 4,340 | 5,828 | 16,669 |
| Education Jobs Fund | 6,137 | 3,833 | 5,245 | 15,215 |
| Science lab materials | 2,288 | 1,527 | 2,051 | 5,866 |
| Total Broward County School Board | <u>12,316,350</u> | <u>7,551,554</u> | <u>10,873,002</u> | <u>30,740,906</u> |
| Other: | | | | |
| Rental revenue | 139,291 | 212,217 | 1,405,556 | 1,757,064 |
| Food sales | 387,113 | 360,400 | 504,854 | 1,252,367 |
| After school education program | 594,059 | - | - | 594,059 |
| Contributions | 189,766 | 145,333 | 193,663 | 528,762 |
| In-house transportation | 217,931 | 155,662 | 72,644 | 446,237 |
| Interest | 32,031 | 4,809 | 15,008 | 51,848 |
| ICMA forfeiture revenue | - | 2,631 | 9,004 | 11,635 |
| School lunch supplement | 2,391 | 1,584 | 2,127 | 6,102 |
| School breakfast supplement | 1,291 | 855 | 1,148 | 3,294 |
| Other miscellaneous revenue | 234 | 303 | 966 | 1,503 |
| Total other | <u>1,564,107</u> | <u>883,794</u> | <u>2,204,970</u> | <u>4,652,871</u> |
| Total local | <u>\$13,880,457</u> | <u>\$8,435,348</u> | <u>\$13,077,972</u> | <u>\$35,393,777</u> |
| Federal grants: | | | | |
| National school lunch program | \$ 208,831 | \$ 124,268 | \$ 156,757 | \$ 489,856 |
| Race to the Top - ARRA | 50,721 | 33,841 | 31,663 | 116,225 |
| NSLP non-cash assistance (commodities) | 30,092 | 23,377 | 37,247 | 90,716 |
| School breakfast program | 40,188 | 17,292 | 20,400 | 77,880 |
| Individuals with disabilities education act (IDEA) | 11,791 | 6,104 | 7,449 | 25,344 |
| Total Federal grants | <u>\$ 341,623</u> | <u>\$ 204,882</u> | <u>\$ 253,516</u> | <u>\$ 800,021</u> |

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

(Continued)

NOTE 4. CAPITAL ASSETS

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|--------------------|-------------------|---------------------------|
| Capital assets, being depreciated: | | | | |
| Improvements other than buildings | \$ 2,597,638 | \$ 3,424 | \$ - | \$ 2,601,062 |
| Machinery and equipment | <u>2,637,751</u> | <u>187,325</u> | <u>(137,679)</u> | <u>2,687,397</u> |
| Total capital assets being depreciated | <u>5,235,389</u> | <u>190,749</u> | <u>(137,679)</u> | <u>5,288,459</u> |
| Less accumulated depreciation for: | | | | |
| Improvements other than buildings | (562,449) | (59,293) | - | (621,742) |
| Machinery and equipment | <u>(1,978,158)</u> | <u>(164,182)</u> | <u>132,317</u> | <u>(2,010,023)</u> |
| Total accumulated depreciation | <u>(2,540,607)</u> | <u>(223,475)</u> | <u>132,317</u> | <u>(2,631,765)</u> |
| Total capital assets being depreciated, net | <u>\$ 2,694,782</u> | <u>\$ (32,726)</u> | <u>\$ (5,362)</u> | <u>\$ 2,656,694</u> |

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

Governmental activities:

| | |
|------------------------------------|-------------------|
| Operation and maintenance of plant | <u>\$ 223,475</u> |
|------------------------------------|-------------------|

NOTE 5. RECEIVABLES

| | <u>Charter Elementary Schools</u> | <u>Charter Middle Schools</u> | <u>Charter High School</u> | <u>Total</u> |
|---------------------------------|---|---------------------------------------|------------------------------------|------------------|
| <u>Receivables</u> | | | | |
| Due from Broward County | \$ - | \$ - | \$ 2,017 | \$ 2,017 |
| Due from Federal Government | 6,483 | 3,758 | 1,760 | 12,001 |
| Other miscellaneous receivables | <u>4,465</u> | <u>3,032</u> | <u>3,713</u> | <u>11,210</u> |
| Total receivables | <u>\$ 10,948</u> | <u>\$ 6,790</u> | <u>\$ 7,490</u> | <u>\$ 25,228</u> |

Other miscellaneous receivables mainly consist of \$3,859 relating to proceeds to be received from the Pembroke Pines Charter School Foundation and \$6,398 for a contribution from Planet T Uniforms. All receivables are expected to be collected within one year.

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 6. INTERFUND TRANSFERS

| | <u>Transfers out</u> | | | |
|-----------------------|------------------------------------|---------------------------------------|--------------|--|
| | <u>Charter High School</u> | <u>City of Pembroke Pines</u> | <u>Total</u> | |
| Transfers in: | | | | |
| Charter Middle School | \$100,000 | \$1,047,973 | \$1,147,973 | Supplement current year operations & Transfer gain of Early Development Centers |
| Total | \$100,000 | \$1,047,973 | \$1,147,973 | |

NOTE 7. OPERATING LEASES

Communications Facility Lease

In December 1997, the City leased two parcels of real property located on the Schools' ground to a private company, which was used to construct, maintain and operate communications facilities. The two lease agreements each have a term of fifteen (15) years with two five-year renewal periods upon mutual consent and written agreement by the parties. Rental payments of \$60,000 are due annually on October 1, and increase at a rate of three percent compounded annually. In addition to the rental payments, the lessee pays the City 50% of all revenues received from any third party source for co-location regarding the construction or use of the telecommunications facility.

The approximate minimum future rentals to be received on this non-cancelable lease are as follows:

| | |
|--|------------|
| Fiscal year ending June 30: | |
| 2013 | \$ 157,000 |
| 2014 | 159,000 |
| 2015 | 162,000 |
| 2016 | 164,000 |
| 2017 | 167,000 |
| Total approximate future minimum rentals | \$ 809,000 |

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 7. OPERATING LEASES (continued)

Other Facility Lease (continued)

On March 13, 2002 the City signed an Interlocal Agreement with Florida International University (FIU) for use of educational facilities located in the City's Academic Village. The Academic Village is a City-owned complex located on the northeast corner of Sheridan Street and Northwest 172nd Avenue, and includes the City's Charter High School, the Broward County Southwest Regional Library and the Southwest Broward County Campus for Broward College, as well as the Shared-Use Facility for the FIU-Broward Pines Center Campus. In order to provide for the operation of an integrated educational program, and to offset the construction and operating costs incurred by the City, the Agreement requires that beginning January 1, 2003, FIU will pay to the City an annual rent starting at \$400,000, which increases by an additional \$200,000 for the next two years and an additional \$50,000 in the fourth year. Thereafter, the annual rent will be adjusted by a minimum 50% of the increase or decrease in the Consumer Price Index (CPI) for Miami, Florida. The original lease was for ten years through December 31, 2012, with one ten-year renewal period.

On December 21, 2011, the City Commission approved the First Amendment to the Interlocal Agreement. This amendment calls for an additional term of eighteen (18) months, commencing January 1, 2013 and ending June 30, 2014, rather than a ten year extension. FIU shall have the option to extend the Interlocal Agreement for additional one (1) year terms and may exercise these options by providing written notice to the City Commission no later than one (1) year prior to the termination of the new term and any subsequent renewal term. The renewal term(s), if any, shall be negotiated by the City and FIU, and evidenced through the execution of a written amendment to this Interlocal Agreement, approved by the City Commission, and signed by both parties.

The annual rentals are payable to the Charter High School in quarterly advance payments.

The rental income of \$997,986 received in the Charter Schools' fiscal year ended June 30, 2012 was recorded in the Charter High School financial statements, and future rentals are included in the table below. The City's cost for the Shared-Use Facility amounted to \$13,599,845, and accumulated depreciation and net book value as of June 30, 2012 amounted to \$2,188,212 and \$11,411,633, respectively. These costs plus the annual depreciation expense of \$282,350 are recorded in the City's financial statements and are not included in the Charter Schools' financial data.

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

(Continued)

NOTE 7. OPERATING LEASES (continued)

Other Facility Lease (continued)

The approximate minimum future rentals to be received, excluding cost of living index changes or expected lease renewals on this non-cancelable operating lease as of June 30, 2012 are:

| | |
|--|---------------------|
| Fiscal year ending June 30: | |
| 2013 | \$ 1,029,000 |
| 2014 | <u>1,039,000</u> |
| Total approximate future minimum rentals | <u>\$ 2,068,000</u> |

Schools' Facility Leases

The Schools lease their elementary school campuses, middle school campuses and high school campus from the City for varying annual rental fees based on the total debt service requirements of the debt issued by the City to purchase the land and construct the Schools (see Note 1.d.6). The rental fees are due annually on December 15.

For the fiscal year ended June 30, 2012, rent expense was approximately \$1,257,000, \$1,070,000 and \$2,245,000 for the Elementary, Middle and High Schools, respectively.

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

| | |
|--|-----------------------|
| Fiscal year ending June 30: | |
| 2013 | \$ 6,332,000 |
| 2014 | 6,445,000 |
| 2015 | 6,477,000 |
| 2016 | 6,475,000 |
| 2017 | 6,485,000 |
| 2018-2022 | 32,339,000 |
| 2023-2027 | 31,493,000 |
| 2028-2032 | 30,516,000 |
| 2033-2037 | 30,148,000 |
| 2038 | <u>5,957,000</u> |
| Total approximate minimum future rentals | <u>\$ 162,667,000</u> |

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 8. CHANGES IN LONG-TERM LIABILITIES

| | Beginning <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | Ending <u>Balance</u> | Due Within One <u>Year</u> |
|----------------------|-----------------------------|-------------------|--------------------|--------------------------|-------------------------------------|
| Compensated absences | <u>\$ 897,939</u> | <u>\$ 346,083</u> | <u>\$(271,923)</u> | <u>\$ 972,099</u> | <u>\$ 772,545</u> |

NOTE 9. RISK MANAGEMENT

Health and hospitalization, workers' compensation and life insurance coverage is provided through the City of Pembroke Pines, and the City, in turn, charges the Schools for this coverage. The Schools maintain their own insurance for general liability, automotive liability, School Board liability, basic and catastrophic student accident, and property and flood coverage's through purchased commercial insurance with minimum deductibles for each line of coverage. There were no reductions in insurance coverage from the coverage provided in the prior year. Settled claims resulting from these risks have not exceeded commercial coverage in the past two years.

NOTE 10. 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 such 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 11. PENSION PLANS

Defined Benefit Plan

Florida Retirement System

On August 16, 2006, the City Commission passed Resolution number 3105 which mandated that all Pembroke Pines Charter Schools' full-time employees hired after August 7, 2006 and all part-time employees regardless of the date of hire will join the Florida Retirement System (FRS) Pension Plan. Individuals who were currently members of the ICMA-RC Defined Contribution Plan were given a one-time irrevocable election whether or not to participate in the FRS Pension Plan. The Charter Schools' employees participate in the Florida Retirement System (FRS), a cost-sharing, multiple-employer Public Employment Retirement System (PERS). The FRS is totally administered by the State of Florida.

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 11. PENSION PLANS (continued)

Florida Retirement System (continued)

Plan Description

Benefits are computed on the basis of age, average final compensation and service credit. Average final compensation is the average of the highest five (5) fiscal years of earnings. The FRS provides vesting of benefits after six (6) years of creditable service. Early retirement may be taken any time after vesting; however, there is a 5% benefit reduction for each year prior to normal retirement age or date. The FRS also provides death and disability benefits. A State Statute establishes the benefit. Normal retirement requirements are vesting and age 62 with six years of service, or 30 years of creditable service regardless of age if the individual was employed by an FRS employer prior to July 1, 2011. If the member was employed on or after July 1, 2011, normal retirement is age 65 with eight years of vested service; or the age after 65 that the member becomes vested; or thirty-three years of service, regardless of age.

FRS issues an annual financial report. A copy can be obtained by sending a written request to:

Division of Retirement
P.O. Box 9000
Tallahassee, FL. 32315-9000

Funding Policy

The Charter Schools' required contribution rate is established, and may be amended, by State Statute. For the fiscal year ended June 30, 2012, the contribution rate decreased from 10.77% to 4.91% of covered payroll which amounted to \$812,317. The Charter Schools are required to contribute both for full-time and part-time members of the Plan. As of June 30, 2012, there were 434 members in this Plan, compared with 431 members the previous fiscal year. The contribution rate includes the post-employment health insurance supplement of 1.11% and the administrative/educational fee of 0.03%.

In fiscal year 2012, the State mandated that employees contribute 3% of pay to the FRS Pension Plan. This required employee contribution amounted to \$479,074.

| <u>Fiscal Year</u> | <u>Annual Required Contributions</u> | <u>Total Employer Contributions</u> | <u>Percentage Contributed</u> | <u>Contribution Rates</u> |
|--------------------|--------------------------------------|-------------------------------------|-------------------------------|---------------------------|
| 2012 | \$812,317 | \$812,317 | 100.0% | 4.91 % |
| 2011 | 1,761,326 | 1,761,326 | 100.0 | 10.77 |
| 2010 | 1,563,168 | 1,563,168 | 100.0 | 9.85 |

CITY OF PEMBROKE PINES CHARTER SCHOOLS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)

NOTE 11. PENSION PLANS (continued)

Defined Contribution Plan

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.

In Fiscal Year 2007 employees were given the option to enter the Florida Retirement System (FRS) or to remain in the Defined Contribution Plan with the ICMA-RC. At June 30, 2012, there were 40 Plan members, versus 42 for the previous fiscal year. Effective January 1, 2002, the Schools' Plan members may make voluntary after-tax contributions of up to twenty-five percent (25%) of compensation during the fiscal year. The Schools' required contribution decreased to 4.91% from 10.77% of the Plan member's gross salary to agree with the contribution to the FRS. For the year ended June 30, 2012, the Schools contributed \$78,177 and the employees contributed \$10,059 to the Plan. Provisions of the Schools' Plan may be amended by the City Commission. The Schools' Plan is held in a trust for the exclusive benefit of the participants and their beneficiaries. Therefore, the net assets of the Schools' Plan are not included in the Schools' special purpose financial statements.

Beginning FY2009, the Schools recorded a revenue and a receivable for ICMA forfeitures. These forfeitures represent the amount of non-vested accrued employer benefits. The Schools will utilize these forfeitures to offset future employer contributions to the Plan.

NOTE 12. OTHER INFORMATION

In November 2007, the Schools filed a lawsuit against the School Board of Broward County (the District) in order to recoup its share of the District's "2 Mill" money that it collects from taxpayers for new construction and remodeling projects. The Schools have calculated that the amount of "2 Mill" money that was withheld by the District since 1998 is approximately \$34.9 million.

On July 23, 2010, a Broward County Circuit Court judge ruled that the Broward County School Board was not obligated to provide the City's Schools with funding for capital projects. However, in August 2011, the City Commission authorized the City Attorney's Office to file an appeal to the 4th District Court of Appeals. Both parties have filed their initial appeals and responses. The matter is still pending.